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GENERAL

U.S. Role in Arab-Israeli Peace Prospects Analyzed

91CM0459A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 178, 8 May 91 pp 6-7

[Article by Li Weijian (9621 0251 1696): "Middle East Peace Progress and U.S.-Israeli Relations"]

[Text] After the Gulf war ended, in order to achieve its long-term strategic goals in the Middle East area, the United States took the opportunity to propose starting immediately to solve the biggest problem of the Middle East area: the issue of Arab-Israeli conflict. On 6 March President Bush said at a joint session of the U.S. Congress and Senate: "Now is the time to solve this problem." U.S. Secretary of State Baker immediately made three trips to the Middle East, looking for a way to achieve peace in the Middle East. But as a matter of fact, such repeated diplomatic efforts of the United States have not yet made any major substantive progress. The reasons are related mostly to the uncompromising attitude adopted by Israel on this issue and to the fact that the United States does not really want to give up its partial stand toward Israel.

I

On 11 March, Baker flew to Israel. It was the first stop in Baker's first trip to Middle East after the Gulf war. Americans know that it is impossible to make any progress in Middle East peace without first convincing Israel. Before he went to Israel, Baker had already talked with the representatives of eight anti-Iraq Arab League nations. During his talk with Israeli Foreign Minister David Levi, Baker reiterated the determination of the United States to bring peace to Middle East and informed Israel of the situation in his talk with Arab League nations and the "new thinking" that had appeared among Arab countries. Baker told Levi: "Now is the time for us to seize the opportunity." Baker also warned Israel that if they want to use the opportunity of Arab realignment after the Gulf war to realize Middle East peace, Israel must show flexibility and not go back to the stand that makes negotiation impossible. Israeli Foreign Minister Levi said: "We saw some encouraging signs which we have never seen before. We will continue to make efforts in this direction." But Israel did not make any substantive promises. The next day, in his talk with Israeli Prime Minister Shamir, Baker again reiterated the U.S. stand, namely urging Israel to observe United Nation resolutions No. 242 and No. 338 which demand that Israel withdraw from occupied Arab territories and proposing that Israel hold dialogues with Palestinians while negotiating with Arab countries and use the so-called "dual-track" system to realize Arab-Israeli talks. However, Shamir ruled out the possibility of using territory as the basis for negotiating with Arab countries and Palestinians in exchange for peace. Afterwards Yuexi Ben Ahalong [4766 6007 2609 7093 0761

7893], director of Shamir's office, told reporters: "Focusing only on the resolutions of the United Nation can only lead to failure." Israel is only prepared to hold "talks without any preconditions." Outsiders criticized Baker for achieving nothing on this trip. As a matter of fact, Baker's failure was expected. As soon as President Bush's speech on Middle East peace was made public on 6 March, Israeli Foreign Minister Levi commented: "People may say that Bush's speech does not contain anything new." "They have their stands and we have ours, which is to protect our lives and hope for peace." Levi also warned the United States not to try to use the "method of pushing buttons to solve problems." "Anything that is considered as putting pressures on Israel and forcing Israel to make compromises would drive away peace." On 7 April, Baker made another trip to the Middle East and took with him some new proposals including the one that urges the United States and the Soviet Union to sponsor a regional peace conference with the participation of Middle East countries. This has gained the support of Egypt and other Arab countries. Baker also visited Jordan which was ignored by the United States during the Gulf crisis and held talks with Palestinian representatives of occupied territories. However, Israel added various conditions to Baker's proposals and reiterated that it will not make any compromises on substantive issues such as territory. This made it impossible for U.S. diplomatic efforts to make any real progress. On 18 April, six days after his second Middle East visit ended, Baker visited the Middle East for the third time. He reached a five-point agreement with Israeli Foreign Minister Levi on the issue of the regional peace conference. The main points include the following: The Soviet Union is permitted to attend the regional Middle East peace conference under the condition that the Soviet Union reestablishes relations with Israel; Israel is willing to study the possibility of European countries attending the entire process of this conference; the conference has no right to force its resolutions on the parties concerned; and Israel agrees to let Palestinian representatives of occupied territories form a joint delegation with Jordan to attend this conference. But Israel still opposes letting the United Nations play a role at the regional peace conference, and it still refuses to make substantive compromises on territorial and Palestinian issues. The progress made by Baker in his three Middle East visits is very limited.

II

The United States and Israel have reached some agreements on the solutions of Middle East problems, but they still have great disagreements on substantive issues. Major ones are related to: 1) The issue of territory for peace. The United States urges Israel to withdraw from Arab territories which it occupied during the 1967 Middle East war to exchange for peace with neighboring Arab countries. This principle of the United States is supported by many Arab countries including the PLO, but it is strongly opposed by Israel. Israel opposes forming an independent country of Palestine on the

West Bank of the Jordan River and Gaza Strip which it occupied. It refuses to give up East Jerusalem which has been considered as an inseparable part of the Israeli capital. It also refuses to give up the Golan Heights which used to be Syrian territory. Israeli Prime Minister Shamir deems it unnecessary to make territorial concessions to start up the peace process. As a matter of fact, no one in the Israeli Government is prepared to make a deal with territory. Israel at most is willing to allow the 1.75 million residents in the occupied territories to hold elections and exercise limited autonomy according to the plan proposed by Shamir in May 1989. What irritated the United States more is that after Baker visited Israel and proposed the principle of territory for peace, Sharon, the Israeli minister of construction and housing, immediately visited the occupied territories and encouraged the establishment of more points of settlement. 2) The issue of the function of the PLO. Although the United States is still reluctant to resume dialogue with the PLO, it understands that to solve the Palestinian issue, it is practically impossible to go around the PLO. When interviewed by Arab reporters, President Bush once said that the PLO lost its credibility due to its support of Iraq, but he also said: "There are also some good people in the PLO." Outside critics said that Bush did not want to shut the door of possibility for resuming dialogue. In his three Middle East visits, Baker also held two talks with the Palestinian leaders of the occupied territories, including famous activist Faisal Hosayni, who receive orders from the PLO. But Israel still upholds its consistent uncompromising stand, refusing to have anything to do with the PLO. It calls the PLO "a terrorist organization." Israeli Foreign Minister Levi said that if the PLO appears to be a winner in the war lost by Iraq, then "this will become the most ridiculous thing in this century." They have completely ruled out any possibility of talking with the PLO. Israel's uncompromising stand on these issues has caused resentment among more and more people in the U.S. Government. Some people even think that by so doing, Israel "deliberately showed contempt for the U.S. Government which needs Israel to exchange territory for peace in order to achieve the post-war strategic goals of the United States in the Middle East."

III

Analysts pointed out that the reason that Israel still holds an uncompromising stand on substantive issues has something to do with the fact that in the past the United States always accommodated itself to Israel and has not changed its partial attitude toward Israel. Facts show that the United States and Israel still have the same stand on some major issues. They both oppose holding an international peace conference on Middle East issues that includes the five permanent members of the Security Council of the United Nation. U.S. proposals on bilateral or multilateral dialogues also cater exactly to Israel's consistent strategic intention of excluding the PLO. In addition, the fact that the United States still refuses to hold direct dialogue with the PLO is also to avoid putting greater pressures on Israel. U.S. White

House spokesman Fitzwater said: "We should not be hasty in the peace process." "We will not order anyone to adopt any solution...We will not assign a final plan." This shows that the United States does not want to put too much pressure on Israel. However, other analysts pointed out that the U.S. demand that Israel carry out the No. 242 and No. 338 U.N. resolutions is only "reiteration," not a new "breakthrough."

The U.S. partial stand and Israel's inflexible stand on fundamental issues are the important causes for the difficulty in the Middle East peace process.

The Middle East is a white-hot area where conflicts occur frequently. In the Middle East there are complex struggles between the internal interest groups of the Middle East and various interest groups of the United States, the Soviet Union, and West Europe. Arab-Israeli conflicts are often intertwined with these contradictions, making the struggles extremely complicated. Middle Eastern people who have suffered all the miseries of war have never longed for peace as they do today. The international community also has never hoped for and adopted practical steps like it does today to accelerate the realization of peace in Middle East. Arab countries, the United States, and Israel all think that now is the best time to bring peace to Middle East. Although what they want to express is very different, there is a possibility that the conflicting two parties may find some points of interception. Under this overall trend, the Middle East peace process probably will not land in an impasse, but there is still a long way to go in solving the Arab-Israeli conflict, and temporarily there is still no sign of any breakthrough.

Changes in World Pattern Discussed

91CM0496A Beijing XIANDAI GUOJI GUANXI
[CONTEMPORARY INTERNATIONAL RELATIONS]
in Chinese No 30, 31 May 91 pp 3-7

[Article by Zhou Jirong (6650 4764 2837): "Trends in World Pattern Changes"]

[Text] Since the mid-eighties there have been two major changes with far-reaching effects in the international struggle situation. The first change was the end of the cold war between East and West, with detente becoming the general trend in the world. Its symbols were the U.S.-Soviet Malta summit and the passage by the Conference for Security and Cooperation in Europe of the Paris Charter on Europe. However, the contradictions between regions and countries which were covered up in the cold war era have intensified, the number of regional conflicts have increased, overall detente and partial tension are developing side by side, and the world is not at peace. The second change was the shift in the balance of power in favor of the developed countries of the West. With the dramatic changes in East Europe and the decline of the Soviet Union, the balance of power between the two blocs has tilted toward the West. The great majority of Third World countries face serious

difficulties; and the gap between North and South has widened. The abovementioned two major changes will affect the changes and developments in the world pattern in the nineties, and from them are shown the new characteristics of the contemporary world pattern and international situation.

First, these major changes in the world pattern occurred and developed under peaceful conditions.

The two major changes in the world pattern were determined by the outcome of the two world wars that occurred in the first half of the 20th century, and they were sudden changes. The evolution after World War II in which the United States and the Soviet Union divided the rule of the world occurred under peaceful conditions; it was a gradual change, a long process from quantitative change to partial qualitative change to overall qualitative change, and about every 10 years there was a partial change. However, every fairly big limited war had an effect on the world pattern that cannot be overlooked. The changes in the world pattern in the nineties cannot be separated from this law. The position and role of each force in the future pattern will be determined by whether it can formulate a strategy for development that suits the national condition of its country and implement the principles and policies of this strategy; and also will be determined by whether it can correctly estimate the international situation, adjust its foreign strategy and foreign policy, and strive for an external environment favorable to the development of its country. The relationship between foreign affairs and domestic affairs is that of interdependence. "For the pursuit of a good foreign policy, there must be a good domestic policy." This is the celebrated dictum of Nicolae Ceausescu, a famous diplomat in Romania's history.

Second, although the cold war has ended, its "inertial effect" will continue to play a role in international society for a period of time.

At a turning point in the course of history, there are few people who have foresight. In present-day reality, backwardness in thinking and understanding is the norm. The structure forged in the cold war environment of more than 40 years has struck root in the political, economic, and military domains of some Western countries. It has brought up some special interest groups that rose to power and position from the cold war, and it has left in the thinking of the leaders of some Western countries a deep imprint, an influence in thought and attitude that for a time will be difficult to erase. No matter whether it is the adjustment of strategy or policy, what is first needed is a rethinking to change views so that a common understanding is reached by the leadership stratum of a given country. This stratum is then able to go on to formulate policy—all this is a complex process of struggle. The first issue of 1991 [as published] of the U.S. journal FOREIGN AFFAIRS carried an article entitled "Rethinking National Security" by Theodore Sorenson, speechwriter for former U.S. President Kennedy. The author maintained that after the end of

the cold war the U. S. past "concept of security, in which containing the Soviet Union's military forces and its ideological influence was made the premise, must be changed"; "the struggle and threat is now economic, not military"; thus the two political parties of the United States should reach a common understanding and "in the new multipolar era" "give priority to the consideration of two basic objectives," i.e., "maintaining U.S. economic vitality and independence on the world market and peacefully promoting democracy throughout the world." Only by achieving these two objectives, he said, will the United States be able to lead the world. In the past two years, public opinion in the United States and Europe, especially in the latter, has concluded that the Soviet military threat has diminished but that economic competition has intensified and appeals advocating the adjustment of strategy have been extremely strong; the people in power have similar opinions. The U.S. national security strategy is being adjusted. However, changing U.S. foreign policy will be obstructed by certain interest groups, and it will be necessary to obtain the concurrence of administrative departments and Congress. The U.S. military still emphasizes the Soviet military threat. They are also making use of the Gulf war to stress once more the high intensity of regional conflicts, in particular the threat to U.S. overseas interests posed by Third World powers that possess missiles, so as to maintain the enormous military budget; and they say that the adjustment of a superpower's policies is like changing the course of a supertanker—it needs a lot of time.

Third, the international situation is complex and changeable, and in it are many unpredictable factors, so that many difficulties are encountered in forecasting the world pattern of the next five or 10 years.

In the contemporary world the power structure among nations is that of one superpower and many powers. The dramatic changes in East Europe and the outbreak in the Soviet Union in recent years of political, economic, and national separatism crises, have caused these countries to have trouble in taking care of themselves. Public opinion in the West is unanimous in the belief that the Soviet Union is in decline, but that militarily it is still a superpower second only to the United States. In total national strength and international influence, the United States has become the sole superpower. After the end of the Gulf war, more international public opinion held this view. Economically, Western Europe and Japan form a tripod with the United States, but the Gulf war showed that their ability to take part in major international crises is limited by their own conditions. China is a permanent member of the UN Security Council. In promoting international justice, the United States cannot ignore China's role in maintaining regional and world peace. Besides the great powers that have global influence, there have appeared in the Third World some regional powers that have a major influence on regional situations. The contemporary world has a network structure that is interdependent and in which each country's influence on the international situation is different.

Many indeterminate factors will affect the changes in the world pattern in the nineties. For example, there are the growth and decline of great forces and the recombination of forces; the degree to which competition between the United States, Europe, and Japan can be regulated; whether the United States, the Soviet Union, and China can form a relationship of restraint and balance; the prospects of splits and combinations in the Third World; the effect of high science and technology on the world power structure; etc. Of these factors for instability the two biggest are: the Soviet Union's future course and the U.S. relative decline. Their relationship is both important and difficult to judge.

First, whether the Soviet Union will rally or will continue to decline for a long time will be determined by the outcome of the trial of strength among the political forces in the Soviet Union. Of the three major crises that the Soviet Union now faces, the economic crisis is fundamental; the political crisis and the trend for national separation make it difficult for the Soviet leaders to promote economic reform and to solve the problem of development. The results of this year's 17 March general election in the Soviet Union were that the majority supported the maintenance of an improved union in the Soviet Union, but six republics refused to hold the referendum, and the forces for national separation continued to spread. The Soviet Union's three major crises are intertwined, and political forces of all descriptions have already "taken the stage and given a performance." The situation is extremely complex and must continue to be watched.

Provided the union of the Soviet Union does not collapse and the political situation gradually stabilizes, there will not be a long-term decline of the Soviet Union. The Soviet economy continues its downslide. Last year the Soviet Union's gross national product [GNP] fell 2 percent; its national income fell 4 percent; its internal debt was 540 billion rubles, more than double the union's budget; and its external debt was \$70 billion. According to the report on a joint survey conducted by the World Bank, the Organization for Economic Cooperation and Development, and other international financial organizations, in 1991 the Soviet Union's GNP will fall 5 percent and its industrial production 10 percent. In April this year there was a miners' strike in the Soviet Union, and it seriously affected Soviet production. According to the estimates of an official of the Soviet State Planning Commission, if stringent measures are not taken the GNP will fall as much as 16 percent, and perhaps in two or three years the Soviet economy could show a negative growth. However, the Soviet Union has abundant natural resources, a huge scientific and technological contingent, and a solid industrial base. Provided the reform and restructuring of its economy suits the national condition, the productivity rate of its society could exceed that of the United States, and the gap between its total economic strength and that of the developed countries of the West would not continue to widen. The Soviet Union is a great power that bestrides

Europe and Asia, and it possesses a powerful military strength that can match U.S. strength. In the nineties it still can be a great power with global influence.

Second, in the nineties it will be difficult for the United States to reverse its continuing trend of relative decline. The U.S. quick victory in the Gulf war dispelled the "Vietnam war syndrome." The war cost about \$65 billion (according to one version, \$40 billion), and \$54.5 billion of this amount was compensated by its allies and by Saudi Arabia and Kuwait. Thus its burden was not heavy. The war had a stimulating effect on U.S. armaments industry, and consumer credit picked up. The United States is expected to bear the largest share of the cost of reconstructing the postwar Middle East. These factors will shorten the length of the current recession. But the United States still faces many economic problems. The low rate of savings, the consumption lead, the huge debts, the decline in education, the drug taking and drug trafficking—all of which have have existed for a long time—have already become chronic diseases difficult to cure. Because the adjustment of the U.S. industrial structure is slow, in some domains it has lost its scientific and technological superiority, and is at a disadvantage in its competition with Japan and West Europe. Its foreign trade deficit is high and does not fall, and it depends on incurring foreign debt to make up its financial deficit. The U.S. rate of economic growth has fallen behind that of Germany and Japan. In 1989 and 1990 Germany's rates of economic growth were respectively 3.9 and 4.2 percent, Japan's were 4.7 and 6.1 percent, but the United States's were only 2.5 and 1 percent. The present ratio of the GNP's of the United States, the countries of the European Community, and Japan is 5:5:3 (over \$5.1 trillion, over \$5.6 trillion, and \$2.8 trillion). In their competition the United States, Europe, and Japan have in succession made the development and exploitation of high science and technology a priority project. According to a U.S. Department of Commerce June 1990 report: "The United States has fallen behind Japan in the product transformation of five technologies, is close to it in three technologies, and is ahead of it in only four technologies." There has been marked progress in the last five years in Europe's Eureka program: one-fifth of its 385 joint research projects are nearing completion, and the United States is losing its leadership position in world science and technology. To maintain its global interests the United States must maintain a high level of military expenditure. In the current economic recession, the rate of decline of the U.S. economy is greater than the rates of decline of West Europe and Japan. It is estimated that the growth rate of the three great economic centers—the United States, Europe, and Japan—from the time of recovery from the recession to the end of this century, will tend to be in an approximate ratio of 3:4:5, and that the three economic forces will gradually tend to become equal. But the United States, with its vast territory and abundant resources, has the potential for competition, and its total national strength can still keep it in first place.

Fourth, the prospect for establishing a post-cold war international order will depend on the various forces in the world, particularly on the changes in the trials of strength between the great powers.

In recent years, and especially since the end of the Gulf war, the establishment of a post-cold war "new international order" has become a popular topic in government and public discussions in many countries. The expression of views by high-level U.S. figures on the establishment of a new world order has been followed with interest by various countries in the world and has touched off much comment. On 2 August 1990, U.S. Defense Secretary Cheney said that the purpose of the reformulated national defense strategy is to "move down the path of a new world order." The Gulf war was an important link in U.S. establishment of the new world order. U.S. President Bush said: "The successes we obtained in the Gulf will facilitate the realization of the new world order that we are seeking, and will also facilitate the realization of our domestic agenda." "In the world there exists a very real prospect for the establishment of the new world order." On 13 April, at Maxwell Air Force Base in the state of Alabama, Bush made a speech to the students of the Air University in which he said: There are four principles for the foundation of the "new world order": peacefully resolving disputes; uniting as one to oppose aggression; reducing and controlling weapons; and treating justly all countries and peoples. Bush maintained that the structure of the new world order would depend on whether the Soviet Union's reforms were successful, and on whether Europe is willing to become a force for stability outside its own borders. The new world order cannot be separated from NATO, and U.S. forces will remain in Europe to insure the peace. Bush excluded the Saddam regime of Iraq from the new world order. Gates, the newly appointed national security adviser, said that in this century the United States has been leading the effort to establish an international security system. As for how to achieve this new international order, he said there is not yet a precise plan. "We are not now very clear about how the chessboard of the future will be arranged." That is to say, the United States has not yet formulated a specific blueprint, and thus there are numerous, confused discussions about it. From a look at U.S. global strategy and the process of its implementation, the U.S. basic idea for establishment of the new world order may be summarized as follows: in strategy, bring all the forces of the world into the framework of a world order designed by the United States, and set up an international "collective security system" controlled by the United States; under the premise of not adversely affecting U.S. capability to field an "effective deterrent force," "promote a stable" arms race at the lowest level possible; mainly depending on U.S. strength, its allies would share the responsibility for jointly making arrangements for and maintaining regional security; maintain an adequate military presence in Europe and Asia, both to guard against the Soviet Union and to control Europe and Japan in order to maintain regional security and stability; as much as

possible try to get the support of the Soviet Union and China, and make use of the United Nations, in handling crises and conflicts; and through international coordination solve the problems of nuclear proliferation, terrorism, and drug trafficking—all of which endanger U.S. interests. Faced with fierce economic competition from Europe and Japan, the United States advocates the establishment of "fair" and "open" international market mechanisms and urges Europe and Japan to open their markets to the United States; and vigorously promotes free trade zones in North America and Latin America in order to change and strengthen its competitive position with Europe and Japan. It stresses international cooperation, coordinating mechanisms, and joint efforts by Western countries to solve world economic problems. It also, with the major industrial countries of the West as the core and with division of work and cooperation, in the political aspect hoists the banner of "democracy, freedom, and human rights"; and in the economic aspect pursues "private ownership" and the market economy; and finally would establish "from West to East" and "from North to South" a "new free world" united under the developed countries of the West.

However, in the "new world order" under its domination that the United States wants to establish there would exist the fundamental weakness of inadequate strength. In its period of supremacy after World War II, the U.S. fond dream of leading the world could not be achieved. In today's multipolarized world it will certainly meet with rebuffs everywhere, causing it to fall into various contradictions from which it will be difficult to extricate itself.

In the activities to establish a post-cold war "new world order," Europe and Japan are both partners and powerful competitors of the United States. For safeguarding the West's common strategic interests, such as keeping unblocked the flow of the West's "black blood"—Middle East oil—and other major issues, the United States, Europe, and Japan are of one mind. However, with their sudden rise, Europe and Japan are not content to play a supporting role in the Western camp. The Gulf war made West Europe understand the necessity for the promotion of "political union," including a unified foreign policy and unified security policy, as well as the establishment of a unified trade and currency economic union to enhance the European Community's great unified market, which is to be achieved in 1992. The Executive Committee of the European Community plans to strengthen the union of West Europe and then go on to establish a new European order led by the European Community. Even if the triangle—Britain, France, and Germany—is not in complete unanimity of opinion on the question of European unification, it has a common understanding on protecting and strengthening its influence in Europe. On the question of building a new order in the Middle East after the Gulf war, West Europe's position and stand is different from the U.S. stand. It calls for the holding of an international conference on

the Middle East in which the solution of the Palestinian problem would be put on the daily agenda, and it is trying to restore Europe's traditional strength in the Middle East. Both Japan and Germany demand that in international affairs they play the role of a major political power commensurate with their economic strength. Europe and Japan cannot have equal shares of power with the United States, but they constitute a serious threat to the maintenance of the U.S. position as the "one superpower."

The U.S. victory in the Gulf war has expanded its strength and influence. However, some U.S. strategists think that "the Gulf war situation cannot be duplicated in the near future; the world rarely encounters a completely different issue like Iraq's invasion of Kuwait." "The United States must not draw the wrong lesson from this war, thinking that without the slightest effort, it can carry out a military expedition and easily win a victory with very few casualties." Just as Nixon wrote in his book *In the Arena*, the United States "cannot protect every inch of land in the free world; this policy would spread our limited resources too widely." The Gulf war broke the old order in the Middle East, but there are enormous uncertainties in the Middle East's "new order" advocated by the United States. In the postwar Middle East there will be a recombination of forces, Europe and Japan are demanding a share of the postwar "dividends," and the Soviet Union is indicating that it wants "to play a positive role" in the Middle East peace process. The Arab countries are stressing even more that they should solve the problems of the Arab world themselves. Iran firmly opposes the U.S. military presence in the Gulf, and is even more unwilling to be excluded from the Gulf security structure. Israel still stubbornly opposes a withdrawal from the Arab territories it occupies. The struggle of the PLO and the Palestinian people against Israel's occupation and rule will not cease. Heath, a former British prime minister, has clearly stated: "President Bush wants to impose the order he has selected on the world; that is a kind of neocolonialism," and will cause even more instability in the Middle East. Many countries and regions are organizing opposition to an international order in which power politics is the guiding principle, maintaining that the countries in a given region should be responsible for that region's security and opposing intervention by an outside great power. Raul Alfonsin, former Argentine president, in an article published in the U.S. *NEWSDAY* and entitled "The New World Order and Latin America," said: "The Gulf war shows without the slightest ambiguity that Latin America faces a new dramatic challenge, i.e., the challenge posed by the so-called new international order." He was strongly opposed to the United States becoming the international policeman at the end of this century, which would impose a system of control based on its military strength. He emphasized that the Latin American countries should actively take part in "establishing a lawful, just, and peaceful order," "guaranteeing that both weak nations and strong nations can exercise nationalism." He appealed to the Rio de Janeiro Treaty

group to unite, and he pushed for meetings of the OAU and ASEAN to explore the possibility of taking joint action. He advocated that "through international consultation and within the United Nations a new balance be sought so that its functions conform to the new forms in order to strengthen its representative and its democratic nature," "so that no country will ever again be manipulated by a strong country." In the nineties large and small countries should take part in world affairs on an equal basis, coordinating with each other to solve problems. The great powers should play a fairly big role; at the same time there must be greater restraints imposed on them by international organizations and mechanisms. The United Nations and the regional organizations will bear a greater responsibility for maintaining regional security and peace.

Character of United States-USSR 'Partnership' Discussed

91CM0506A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese No 41,
3 Jul 91, pp 31-36

[Article by Ruan Zongze (7086 1350 3419): "Current American-Soviet Relations"]

[Text] The cooperative "partnership" between the United States and the Soviet Union that has taken shape for a time may be characterized as follows: The two parties are not truly equal "partners;" the development and strengthening of this cooperative relationship is a common need of both the United States and the USSR that reflects their different strategic intentions; and its foundation is not solid. Certain weaknesses and definite limitations pervade it. As circumstances within the USSR have changed, the United States has readjusted its policy toward the USSR: It has re-evaluated the United States' security strategy, and has strengthened somewhat its contacts with all opposition and independence movement forces in the USSR.

Future American-Soviet relations will largely maintain a momentum in which cooperation is greater than confrontation; however, changes in the USSR's internal situation are the key element in deciding the rise and fall of relations between the two parties and their ultimate direction.

Important new changes have taken place since the end of 1990 in both the internal situation in the USSR, and in American-Soviet relations. Inside the USSR, the Soviet Union has adopted fairly "tough" measures to stabilize the domestic political and economic situation and to prevent the splintering of the country. The USSR's gradual pulling away from the United States on the Gulf War issue made the United States very "uncomfortable." Many disagreements occurred between the United States and the Soviet Union, and confidence declined. The so-called "partnership" that had taken shape for a time between the United States and the Soviet Union might possibly regress to a "semi-cold war" relationship

according to Gorbachev. This fully revealed the "brittleness" of relations between the United States and the USSR. This article discusses some perceptions and views about the present state of American-Soviet relations, readjustment of American policy toward the USSR, and the outlook for relations between the United States and the USSR.

I. Current State of American-Soviet Relations

A. Formation of the "partnership" between the United States and the USSR. When the Bush administration came to power in early 1989, it spent about four months re-"assessing" America's foreign policy, particularly America's policy toward the USSR. Then, in May 1989 in Texas, President Bush made his first important speech setting forth the Bush administration's policy toward the USSR in which he proposed a new strategy toward the USSR that "goes beyond containment." This new strategy largely emphasized that the United States would use political, economic, diplomatic, and military methods in order ultimately to "bring the USSR into the world order." Meanwhile, under guidance of Gorbachev's "new thinking" a policy of "perestroika" and "glasnost" was actively pursued that called for the Soviet Union to build a "humanitarian socialism," and that emphasized an easing of relations with the United States and western countries. It was against this background that the heads of state of the United States and the Soviet Union held "informal" conversations at Malta in the Mediterranean Sea in December 1989. In these conversations, both Bush and Gorbachev said explicitly that they wanted to establish a new relationship between the United States and the USSR. The conversations between the heads of state had a substantial effect on the future development of relations between the two countries. Out of a common need on the part of both parties, the United States and the USSR paid great attention to safeguarding the overall situation in relations between the two countries. They sought to maintain the impetus of moderation and improvement of relations. During 1990, in particular, relations between the United States and the USSR took another major step forward. It was in this year that the leaders of the two countries, Bush and Gorbachev, held three separate conversations in Washington, D.C. (late May and early June), Helsinki (early September), and Paris (mid-November). As soon as the Gulf crisis broke out on 8 February, the American and Soviet foreign ministers conducted urgent discussions, issuing a joint statement on the following day condemning Iraq for aggression against Kuwait. This was the first time since the war that the United States and the USSR had "cooperated" in this way on a regional conflict. In mid-November, both countries took part in the signing of the first east-west treaty on the reduction of conventional arms in Europe, and the "Paris New Europe Constitution" that included a total of 34 European and North American countries. Then both the United States and the USSR unabashedly announced that relations between the United States and the USSR had become a cooperative "partnership."

B. Character of the American-Soviet "Partnership." It took shape in a situation in which the balance of power between the United States and the USSR became markedly favorable to the United States and the west, and in which the USSR converged with the United States on major international issues. In recent years, the situation inside the USSR has gone from bad to worse. The tangle of ethnic, economic, and political conflicts, as well as the Soviet Union's policy of "retrenchment" abroad caused a marked weakening of the Soviet Union's former "super power" position, and it no longer had the strength to stand up to the United States. Thus, the United States and the USSR are by no means truly equal "partners."

Second, the development and strengthening of cooperative relations is a shared need of the United States and the USSR, but it also reflects their different strategic intentions. The USSR will strive to preserve its own super power status, and hope that the United States and the west will support and assist its "reforms," to get through this period of "labor pains." The United States hopes that the USSR will continue to develop in the direction of so-called "democratization and liberalization" ultimately to become a "democratic member" of the west for realization of the "bold objective" of which President Bush speaks. Thus, this cooperative relationship between the United States and the USSR is mostly one of mutual reliance for support and mutual utilization, each taking what it needs.

Third, it lacks a firm foundation. It is "pervaded with weakness" (a statement by Soviet Foreign Minister Alexander Bessmertnykh in a March meeting with American Secretary of State James A. Baker III). Cooperation between the United States and the USSR depends on the direction in which the Soviet Union's internal situation develops. American Secretary of State Baker said openly that cooperation between the United States and the USSR will "ultimately depend on continued progress in reforms in the USSR." Since events inside the USSR will continue to undergo constant change, this increases the uncertainties for cooperation between the United States and the USSR. The outlook is unpredictable.

C. The limitations of the American-Soviet "partnership" have already been revealed in a marked cooling in relations between the two countries. On the basis of the foregoing features of the American-Soviet partnership, it is easy to see that from the very outset cooperation between the United States and the USSR has contained its own irreconcilable contradictions and differences. Thus, definite limitations exist. With the passage of time, these limitations will be gradually revealed, and American-Soviet relations will unavoidably cool. More precisely, the events leading to a cooling of relationships between the United States and the USSR are primarily as follows: (1) The USSR central government's use of armed forces to quell disturbances in a Baltic Sea Republic in mid-January 1991 provoked a strong American reaction. The United States even threatened "economic sanctions" against the USSR. The United States Senate and House of Representatives passed unanimous

resolutions calling on President Bush to issue economic sanctions against the USSR, to halt technological exchanges with the USSR, and to cancel support for Soviet participation in the International Monetary Fund, the World Bank, and the General Agreement on Trades and Tariffs. Some extremely influential politicians even called for Bush to cancel his visit to Moscow. In a meeting with newly appointed Soviet Foreign Minister Bessmertnykh in late January, President Bush said straight out that "difficulties" have occurred in relations between the United States and the USSR. This was largely the direct effect on American-Soviet relations of the bloody Baltic Sea incident. Reportedly, Secretary of State Baker devoted five hours to a discussion of Baltic Sea region problems with Bessmertnykh in which he expressed America's "disquiet" with the USSR. For its part, the USSR reacted fairly strongly to the American condemnation. Gorbachev's advisor, former Chief of General Staff Sergei Akhromeyev issued a strongly worded statement in early February that criticized "certain western powers" for trying to interfere in internal Soviet affairs. Gorbachev told American Secretary of State Baker during a March visit to the USSR that stable American-Soviet relations depended on the United States' correct understanding of the political situation in the USSR.

(2) American-Soviet cooperation immediately following the outbreak of the Gulf crisis attracted attention; however, by February 1991, differences gradually appeared in the positions of the two parties. Before the outbreak of the ground war, the USSR hurriedly put forward a six point proposal to solve the Gulf crisis, which greatly displeased the United States. The United States immediately declared that the Soviet-proposed peace conditions "fell far short" of America's demands. It consequently rejected out of hand the Soviet proposal. According to the analysis of observers, the USSR took this step largely because it felt uneasy about America having its own way in the Gulf. It wanted to interfere with a total American victory and Saddam Hussein's complete defeat, and it wanted to be in position after the crisis to exercise a rather large role and influence as a mediator. However, the United States naturally did not want to be restrained by the USSR following the end of the Gulf war. This round of open strife and veiled struggle between the United States and the USSR took the bloom off the rose for both parties. It reflected the duality of the United States and the USSR in the Gulf crisis of both cooperation and jockeying for position. Additionally, the United States and the USSR are also at odds with each other in many regards as to how to build a security system in the Gulf and the entire Middle Eastern area. For example, the USSR continues to maintain that "so long as the PLO is still the organization that represents the interests of the Palestinians, it must participate in solution to Middle East problems," while the United States does not want to revive the dialogue with the PLO and recognize its role in the peace process in the Middle East. Furthermore, the Soviet Union has expressed serious concern about American intentions to

continue to station forces in the Gulf, and it has proposed that the foreign military presence in the Gulf not exceed the 1 August 1990 level.

(3) Not long after the United States and the USSR signed the "European Conventional Military Forces Treaty" reduction, the United States condemned the USSR for converting three mechanized army divisions to marines, thereby concealing the military strength of three divisions. In addition, according to an American expert, prior to signing the conventional forces reduction treaty, the USSR transferred tens of thousands of tanks, artillery pieces, and other weapons to sites east of the Ural Mountains to place these weapons beyond the purview of cuts called for in the conventional forces reduction treaty. The United States and the west regarded these actions by the USSR as an attempt by the Soviet military to "revise" the treaty signed as a result of negotiations by politicians. In testifying before Congress on 6 February 1991, Secretary of State Baker said that until such time as agreement is reached with the USSR to resolve certain problems regarding conventional arms reductions, Baker did not plan to present the treaty for reduction of conventional arms in Europe to the Congress for approval, and he suggested that the United States Congress delay ratification of this treaty. The USSR rebutted the American condemnation. Soviet Ministry of National Defense Legal Department First Deputy, Brigadier General Fulajimier Kukeliefu provided the following explanation on this matter: Since the United States and the west placed navy reductions outside military control, to maintain its naval superiority, the USSR was forced to strengthen its coastal defenses by transferring one division each to the Black Sea, Baltic Sea, and northern fleets.¹ The USSR also said that these three divisions had been repositioned before the signing of the conventional forces reduction agreement. Following the signing of the treaty, no Soviet troops or formations have been changed from one branch of service to another.

The controversy between the United States and the USSR about the conventional forces reduction treaty had an adverse effect on negotiations between the two countries on a nuclear weapons reduction agreement. Reportedly, the United States and the USSR had already reached agreement on most of the substance of this agreement; only some technical issues remained. Examples included procedures for the inspection of Soviet production of missile solid fuel, and missile assembly plants, as well as the Soviet insistence on inspecting American B-2 bomber plants, and differences over bilateral exchanges of intelligence about the number of missile launch tests. It was originally intended that this treaty be signed during the meeting between the American and Soviet heads of state in February 1991, but this was postponed. A Soviet official said about negotiations on the reduction of strategic nuclear weapons that "solution to this problem in the hands of the Americans," because the United States "lacks political resolve." However, the United States insisted that completion of a

strategic nuclear weapons reduction treaty will depend on whether both parties can eliminate obstacles existing in the conventional forces reduction treaty. Consequently, signing of a nuclear disarmament treaty stalled, and although the delay was attributed to technical obstacles, the real reasons were political. In addition, the USSR several times proposed negotiations with the United States on the reduction of naval armaments only to meet with repeated United States refusal. This was a cause for Soviet displeasure.

Furthermore, in December 1990, Soviet Foreign Minister Shevardnadze, whom the United States regarded as a "liberal," suddenly handed in his resignation at the Fourth Soviet National People's Congress. The United States and Soviet Union heads of state meeting, which was to be held in Moscow in mid-February, was postponed. All these things show that the boat of American-Soviet relations is sailing into waters that are not calm by any means.

II. The United States Changes Its Policy Toward the USSR

A. Basis for the change in United States policy toward the USSR. Since the autumn of 1990, Gorbachev has made certain changes in his policies to enable the USSR to extricate itself from ever increasing social crises. The main action Gorbachev has taken has been a transition to presidential rule, increasing the president's executive powers; signing of a new union treaty; earliest possible transition to a market economy; strengthening of the armed forces and legal protection agencies; and dispatch of troops to the Baltic republics to halt the national separatist movements. According to the analysis of observers, the "toughening" of Gorbachev's policies stems from considerations in the following regards: "Grumbling" from the Soviet military and the so-called "traditional faction" about Gorbachev's foreign policy has increased recently. They believe that during the previous period the USSR made too many concessions on some important issues, such as eastern Europe, German unification, and the European conventional arms reduction treaty. The social crisis in the USSR is serious; factions are proliferating, and struggles for power among various political forces are intense even to the point of threatening Gorbachev's position. The USSR has some new understandings of eastern European problems and sees more clearly the west's true intentions.

In January, a bloody clash took place between the USSR armed forces and national separatists in Lithuania and Latvia. The negative effect on trust in American-Soviet relations should not be underestimated. It destroyed American illusions about the USSR. United States Secretary of Defense Dick Cheney said that this event "clearly sends an extraordinarily frightening signal about future prospects for Soviet democracy and reform." The NEW YORK TIMES asserted the need to "guard against (the USSR's) attitude of being just a victim."² Some American opinion also tried to influence the Bush

administration, demanding that "the Bush administration consider changing its view of Gorbachev. In view of Gorbachev's tough attitude and evidences of ever increasing Moscow reneging on weapons control, American policy should be readjusted."³ As a result of the serious damage to the relationship of trust between the United States and the USSR, and the increase in factors for instability in the USSR's political situation, the United States is now putting a hand to readjustment of its policy toward the USSR to bring in more in line with changes in the new situation.

B. Main aspects of American policy adjustments toward the USSR. (1) A reassessment of America's national security strategy. The chairman of the United States Joint Chiefs of Staff Colin Powell warned that "Soviet military strength is not changing in a material sense. The Soviet Union is today and will continue to be the only country in the world capable of destroying the United States within 30 minutes."⁴ In early February 1991, in a discussion of America's new defense strategy before the House Armed Services Committee, Secretary of Defense Cheney reiterated that "the Soviet Union's strategic nuclear forces are being constantly updated." The United States must continue to maintain military superiority over the Soviet Union. Additionally, according to an American Associated Press report of 24 April, the chairman of the House Armed Services Committee, Les Aspin, said it was necessary to renew attention to strategic defense planning. He believed that the "canlan luanshi" [3503 3620 0607 4258] plan has been cut back too much to the point where it is unable to deter a Soviet attack. The United States government is already trying to increase appropriations for its strategic defense plan.

(2) While maintaining relations with Gorbachev, the United States government has judiciously increased contacts with Soviet opposition factions and independence movement forces. Former United States national security advisor, Zbigniew Brzezinski said in a 4 March WASHINGTON POST article that the United States should conduct a double-barreled policy toward the USSR. On the one hand, it should maintain normal and formal diplomatic relations with the USSR, while simultaneously taking various actions to expand the development of relations with those national republics seeking genuine independence, bolster their confidence, enhance their sense of identity as a people, and gradually improve their international standing. In a visit to the USSR in mid-March, Secretary of State Baker met separately with the Moscow representatives of the three Baltic republics. On 8 May, President Bush met with leaders of these three republics in the White House. Analysis shows America's goals in so doing to be two. One is to influence the process of change in the USSR political situation; and the second is to increase America's ability to respond to, and its room for maneuver in the USSR political situation.

(3) The United States has taken the USSR by the "short hair" on the arms reduction issue. The United States has linked solution to problems with the conventional arms

treaty to negotiations on the reduction of strategic weapons, thereby maintaining pressure on the USSR, and preventing the USSR from playing the same old tricks in nuclear disarmament and the second stage of conventional arms reductions.

(4) On regional issues such as the Middle East and Kampuchea, it will continue to pay close attention to consultations with the USSR, seek Soviet views, and draw support from the traditional influence of the USSR in these areas to help eliminate barriers to solving conflicts there. At the same time, the United States will maintain vigilance against Soviet intentions. For example, in the Gulf crisis, the United States is wary of the USSR's efforts to play the role of mediator.

III. Estimate of Future Prospects in the Development of American-Soviet Relations

The following estimate can be made of the future development of relations between the United States and the Soviet Union on the basis of the bilateral and separate fundamental interests of both parties. (A) American-Soviet relations will continue a general trend of development in which cooperation is greater than confrontation, no "major reversals" occurring in relations between the two countries in the near term. As was previously noted, development of American-Soviet relations from the cold war period's intensely confrontational mutual hostility to a "partnership" relationship for a time was by no means accidental. It stemmed largely from the mutual needs of the United States and the USSR. Despite the present cooling in relations between the United States and the USSR, no change has occurred in the mutual needs of both parties. The United States wants to build a "new world order," and it wants to solve problems such as regional conflicts and weapons proliferation, neither of which is imaginable without the cooperation of the USSR. Furthermore, the United States hopes to influence the direction of the USSR's internal political situation, and continue to influence eastern Europe. This also requires maintenance of relations with the USSR. As President Bush said in his 27 February telephone conversation with Czechoslovakia's President Václav Havel, he is determined to maintain good relations with the USSR, partially to ensure that eastern Europe can continue to carry out political and economic reforms. As for the USSR, which has become weak, the focus of its foreign relations remains on the United States and other western countries in the expectation of getting more capital and technology from them. To do this, the USSR must maintain good relations with the United States. Consequently, one might say that in future handling of bilateral relations or on major issues affecting the interests of both parties, both the United States and the USSR will exercise greater caution. Both parties will come to terms and make compromises when pursuing issues so as not to hurt overall relations between the two countries. Naturally, since the balance of forces and the situation is unfavorable to the USSR, the USSR will have to make more compromises.

(B) Changes in the USSR's domestic situation will be the key element determining the ups and downs, and the ultimate direction of American-Soviet relations. The USSR's economic difficulties and minority nationalities crises are worsening with each passing day. The Soviet Union continues to face the serious possibility of breaking up. The United States both worries about the possible suspension of "reform" in the USSR, or even a backtracking in the "reform" process, and that the USSR might use military force to put down the ever more intense tide of "independence" in the separate republics. In referring to the current situation in the USSR during January 1991, American President Bush said that "Reform in the USSR is indispensable to improvement in relations between the United States and the USSR. Situations such as those occurring in the Baltic Sea republics can cause a backing away from the reform process, or even a basic reversal of this process, but this process is extremely important for the world and for the development of a new international order." Secretary of State Baker could not have been more explicit about "this process" which he said was "realizing political pluralism and the establishment of a free market economy."

(C) The pace of arms reduction will slow, however, hope remains for the signing of a strategic nuclear arms reduction treaty. To achieve a conventional arms reduction treaty with the United States and the west, the USSR has made many compromises. According to the provisions of this treaty, the weaponry of all kinds that the USSR will have to reduce is many times more than that of the United States and western Europe. As for the three contested divisions, they are not of crucial importance to the USSR. Once this issue is solved, impetus can be given to the stalled nuclear military reduction negotiations about which it seems the USSR may finally compromise. At the same time, out of consideration for the USSR's interests and Gorbachev's present domestic predicament, the United States may take some corresponding steps that make some allowances for the USSR. Reportedly Gorbachev recently wrote a letter to President Bush in which he asked that accord be reached on the conventional arms reduction treaty. Gorbachev suggested that the USSR withdraw approximately half of the contested military equipment from the area covered by the treaty as an expression of good will.⁵ Reportedly, in a letter of reply to Gorbachev, Bush said that he would accept the destruction of some arms from areas outside Europe, however, these arms could be destroyed only under supervision of the United States and its allies. In exchange, the United States would ask the USSR to destroy 1,700 weapons belonging to its rocket forces and civil defense corps, and he would not accept other countries' interpretation of the treaty.⁶ Recently the USSR sent Chief of General Staff General Moiseyev to the United States to clear away obstacles to arms control. Thus, possibilities improved for the signing of a 30 percent strategic offensive nuclear weapons treaty at the planned heads of state talks.

(D) On regional issues having a bearing on the strategic interests of the United States and the USSR, wariness on the part of both parties has not entirely disappeared, and cooperation is limited. Although the United States and the USSR may find areas of convergence on certain interests, in solving regional disputes about which they can cooperate, as for example both being similarly concerned about the stability of the Middle East, and neither wanting Moslem fundamentalists to seize national power; nevertheless, for various historical and geopolitical reasons, a clash of interests exists between them that cannot be easily eliminated. This means that the cooperation of both parties on these matters cannot be wholehearted, but will be somewhat limited.

(E) Economic and trade relations between the United States and the USSR are limited not only by the Soviet Union's economic situation and investment climate, but also by political relations between the two countries on which major advances are difficult. Naturally, the United States will offer the USSR some limited economic assistance in an effort to rope in Gorbachev, while also using this as bait to pressure the USSR into "containing action" on "reform." In December 1990, the United States decided to suspend for six months enforcement of the Jackson-Warneke Amendment in consequence of which the USSR obtained a \$1 billion credit guarantee. Recently the USSR proposed that the United States grant a further \$1.5 billion credit increase, but the United States is hesitating, and has still not concurred on grounds that "conditions are not yet ripe."

(F) Both America's and the USSR's foreign policies are hobbled by domestic elements, with mutual apprehensions and feelings of distrust increasing. In the USSR, Gorbachev's circumstances are not as good as they were one or two years ago. He has been caught in a pincer attack between forces on the "left" and "right," and his room for diplomatic maneuver has been curtailed. In the United States, not only has Bush come under pressure from the extreme right wing, but most recently he has been somewhat influenced by the views of Richard Nixon and Henry Kissinger on the domestic situation in the USSR. They have recommended that the United States government not gamble everything on the person of Gorbachev. In an article he wrote following his return from an April trip to the USSR, Nixon said, "The United States positively must not commit the error of pinning on a single person, even an outstanding person such as Gorbachev, all of its hopes for maintaining good relations with the Soviet Union. We must face this fact squarely: Gorbachev's power is weakening little by little."⁷

Therefore, American-Soviet relations will continue to rise and fall. For some time to come, the United States and the USSR will more or less maintain a "semi-partnership," which is to say that both parties will deal with each other more on concrete matters, with fewer illusions, and with more realism, striving to cooperate on matters of common interest even to the point of

becoming "partners." This trend will continue. Nevertheless, one cannot rule out the possibility of clashes and even confrontation between both parties on these issues.

Footnotes:

1. CHRISTIAN SCIENCE MONITOR, 16 April 1991
2. NEW YORK TIMES, 14 Feb 1991
3. American Heritage Foundation publication, EXECUTIVE MEMORANDUM, 30 January 1991, Issue 294.
4. Associated Press dispatch 7 February 1991
5. WASHINGTON POST, 2 April 1991
6. WASHINGTON POST, 12 April 1991
7. TIME MAGAZINE, 22 April 1991

UNITED STATES

Analysis of U.S. Foreign Policy in Post-Cold War Era

91CM0497A Beijing XIANDAI GUOJI GUANXI
[CONTEMPORARY INTERNATIONAL RELATIONS]
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[Article by Ha Mei (0761 2653): "United States Adjusts Foreign Policy for Post-Cold War Era"]

[Text] The situation in Eastern Europe has changed radically since the second half of 1989. U.S.-Soviet relations have grown less tense. With the collapse of the Yalta system, the cold war is basically over. These changes in the international strategic situation are the focus of worldwide attention and have prompted the Bush administration to adjust its foreign strategy. The outbreak of the Gulf war in particular has had an enormous impact on the adjustment of U.S. foreign strategy.

I. Background and Rationale of Foreign Policy Adjustment

The United States has been adjusting its foreign strategy based on its assessment of the post-cold war international situation. In the U.S. calculation, the cold war is over and strategically the world is in a transitional period between the old and the new. This is a "time of tremendous change, a time bursting with hope, but also an extremely turbulent time" (in the words of George Bush). The characteristic of this transitional period, as pointed out by U.S. media, is that the world is headed in the direction of multipolarization amid a swirl of "stabilizing factors." The situation will grow "more unstable" and "more complex." During the transitional period, the U.S. national security climate has changed drastically, not only presenting the country with a huge "historic opportunity" but also confronting it with a set of totally different international challenges.

First, the threat from the Soviet Union has diminished significantly but militarily it remains the principal U.S. rival. "The long-term decline of the global strength and influence of the Soviet Union has begun."¹ For many years to come, "the Soviet Union basically will not again have the will or ability to pursue global hegemony." Be that as it may, the threat from the Soviet Union continues. As a superpower that was once the equal of the United States, it still exerts an influence on world affairs that cannot be overlooked. Even more important, Soviet reform faces an uncertain future and the possibility that foreign and domestic policies may change cannot be ruled out.

Second, bipolarization is giving way to multipolarization and the world is entering a period of the "redistribution" of power and influence. Regional powers and blocs are in the ascendant and new power centers are emerging. In Europe the reunified Germany has become a power with almost 80 million people and vast economic and technical prowess and military potential. Japan continues to rapidly expand its power as a nation to become "the world's largest creditor nation and the leader in foreign aid and many key areas of technology." All this will have a bearing on the U.S. global position.

Third, the United States faces a dual challenge from its allies (Western Europe and Japan). 1) Economically, although the United States is still the paramount power in the world, both Japan and Western Europe have been catching up rapidly. In relative terms, the United States has been declining economically. What we will see in the 1990's will be a three-way competition among the United States, Japan, and Europe. For the United States the economic challenge from Japan and Western Europe has become the overriding issue in its relations with those nations. 2) Politically, because the threat from the Soviet Union has been reduced notably, the Warsaw Pact has been dissolved, and the security climate in Western Europe has changed, the future role and position of NATO has become problematic. There is a growing tendency in Western Europe toward joining forces to strengthen themselves and assert their independence in Central and Eastern Europe. Europe is eager to play a leading role in drawing up the future map of Europe. Anxious to claim its place as a political power, Japan is using its formidable economic and technical muscle to get involved in world affairs. In the final analysis, all this will undercut U.S. leadership in the Western world.

Fourth, in the Third World, on the one hand, the Soviet Union's strategic retrenchment combines with the loss of appeal of the Soviet model to create an enormous opportunity for the United States. On the other hand, there has been a notable increase in the factors in the Third World that "threaten" Western security, as epitomized by the emergence of militarily strong regional powers that seek to achieve their political objectives using their military arsenal. A case in point is Iraq's invasion of Kuwait. The proliferation of nuclear, biological, and chemical weapons, as well as that of guided missiles and guided

missile technology, terrorist activities, and the spread of drug smuggling all constitute "practical threats."

In addition, the "strategic factor" of "resisting the Soviet Union jointly," which used to be a part of U.S.-Sino relations, has largely disappeared as far as the United States is concerned. This also necessitates some readjustment in Washington's China policy.

II. Goals and Basic Direction of Policy Adjustment

The United States adjusts its foreign strategy to pursue these strategic goals: 1) Revive U.S. economic power to ensure its economic, military, and political leadership in the world. 2) "Reinforce and advance" the democratic values of the West on a global scale. 3) Put the United Nations to the best possible use to develop "coordinated cooperation" between the United States and the Soviet Union. 4) Unite its allies and solidify the Western alliance based on Europe, Japan, and itself, at the same time demanding that its allies assume a larger share of the responsibilities and obligations. 5) Does not hesitate to use force, if necessary, to deal with nations that encroach upon basic U.S. strategic interests. At the same time, it will nudge more countries toward the course of "economic liberalization" and "political democratization" with political and economic means. Such is the design of the "new world order" Bush has evoked time and again since the Gulf crisis.

To achieve the above objectives, the United States has been adjusting its foreign strategy in the following general direction:

1. Revitalize the nation with high technology and strive to win the competition between the powers in overall national strength based on high technology. Bush says that U.S. global leadership must be backed by a strong and vibrant economy, that the United States must increase material, human, and intellectual investment, and that overseas commitments must be scaled back properly to make the United States more competitive economically in the world. However, U.S. scientific and technical leadership is facing a severe challenge from Europe and Japan. The formation of an massive integrated market in the European Community in 1992 is bound to further demonstrate Europe's solid economic and technical prowess. As for Japan, it is threatening the U.S. technological edge in nine areas, namely semiconductors and microelectronics, light quantum engineering, complex materials, artificial intelligence and robotic engineering, passive sensor technology, super-sensitive radar, biotechnology, parallel computer design, and software efficiency, and has even overtaken it in some fields. In its report on the basics of the defense industry released last November, the U.S. Department of Defense emphasized the importance of preserving U.S. technological superiority and laid out a new development strategy to enhance U.S. international competitiveness in semiconductors and the advanced machine tool and equipment industry.

2. In a break with its past disdain for and negativism toward the United Nations, the United States is now

taking that organization very seriously, putting it to work for U.S. global strategic interests. In calling for the establishment of a new world order, Bush emphasizes that the United States must make the most of the United Nations—"revive the United Nation's peace function"—and help it fulfill its role of effectively "safeguarding international collective security." As Washington sees it, it was the Soviet Union's repeated use of its veto at the UN Security Council in the past that prevented the world body from fulfilling its functions. Now that the Soviet Union has changed drastically, the United States and the Soviet Union were able to cooperate to preserve peace and order by supporting all 12 resolutions during the Gulf crisis, putting the United Nations to full use. To get even more from the United Nations, Bush has called for a "new international partnership" led by the United States that would "transcend the scope of the cold war." All nations, Bush suggested, should establish a partnership based on "consultation, cooperation, and collective action" through international organizations such as the United Nations in accordance with the "principle of collective security and the rule of law" and "share responsibilities and obligations" fairly in order to "strengthen democracy, advance prosperity, and promote peace."

3. From a position of strength, the United States should continue to adopt a strategy of "supracontainment" toward the Soviet Union, at the same time remaining vigilant lest sudden or adverse changes take place in that country. In the 1990's, the United States will continue to amplify and refine its "supracontainment" strategy and look for a common ground between U.S. and Soviet interests, making an effort also to reach an agreement with Moscow on such matters as arms control and regional conflict that is favorable to the United States. Meanwhile, it will encourage the Soviet Union to carry out "fundamental changes" and boldly switch over to market economy and political pluralism. Only then will the United States give Moscow technical assistance, credit guarantees, and preferential trading terms. Which way are Soviet domestic and foreign policies headed? That has now become the prime focus of U.S. interest. As Baker puts it, "the Soviet Union is at a crossroad." He hopes that it will "remain committed to reform, engage in a peaceful dialogue with the leaders of the independence movements in the Baltic republics, and devote itself to creating a society of law rather than one ruled by force." But the United States and the Soviet Union each have their own global strategic interests. As the Gulf crisis demonstrated throughout, it is impossible for the two countries to march in lock step with each other. For this reason, U.S.-Soviet relations will continue to have ups and downs in the days ahead.

As for Eastern Europe, the objective of the United States is to steer it gradually in the direction of democratic politics and market economy, and incorporate it into the Western system so as to pave the way for a "free united Europe" within the framework of the "new Atlantic doctrine."

4. Adjust and overhaul its relations with its allies and establish a "tripolar" system with Japan and Germany to ensure U.S. leadership in the Western world. The Bush administration has been adjusting its relations with the Western alliance in three ways. First, it has put forward the "new Atlantic doctrine" to counter the Soviet Union's "European mansion." Accordingly, proposals have been floated to revamp NATO and give the alliance new political functions. There are suggestions to link NATO to the European Community through a "powerful cooperative mechanism" in the form of a treaty, expand the functions of the European Security Conference to develop it into the "prime forum for East-West cooperation," and confine Germany to the framework of NATO and EC so as to preserve vital U.S. strategic and economic interests in Europe and win a leading role for Washington in the new Europe of the future. Second, it has launched a new diplomacy of the "U.S.-Germany-Japan triangle" to keep the latter two countries as the "cornerstone of the Western alliance" and "principal allies of the United States." The United States wants the three countries to coordinate and harmonize their actions on major international issues and allow Japan and Germany to "participate fully in the discourse about the post-cold war world," with the United States continuing to play the leader in its dealings with Germany and Japan. At the same time, it would continue to compete with those two countries in the economic and technological fields in an all-out drive to maintain its No. 1 position. Third, it would use the G-7 summit meetings and expand their functions. Besides harmonizing relations among the allies, the club of the rich is also envisioned as a powerful tool for dealing with the Soviet Union, Eastern Europe, and the Third World.

5. Extensively revise its policy toward the Third World. New developments in the political trends of the superpowers can be summarized as follows: 1) They would not hesitate to use force if necessary, as when the United States went to war against Iraq, the biggest military battle since the end of World War II. 2) Further beef up the ability of the U.S. Armed Forces to counterattack promptly to ensure its "decisive advantage over a potential military opponent from the Third World." Further emphasize the role of air transport, air power, and the light infantry and continue to build up the special units of the three branches of the armed services, equipping them with advanced military technology and hardware to increase their combat capability. 3) The big powers should learn a lesson from the arming of Iraq in the past and strictly curb the proliferation of nuclear, biological, and chemical weapons, guided missiles, and guided missile technology. A second "Coordinating Committee on Export Controls" has been proposed specifically for the Third World. 4) There are proposals to establish a U.S.-led regional security system for each region, depending on its circumstances. In Asia, the United States calls for a new Pacific partnership to be made up of three major components. First, a U.S.-Japan partnership in which the two nations will share responsibilities. The partnership with Japan is intended to consolidate

the U.S.-Japanese alliance and form the cornerstone of the U.S. Asian-Pacific strategy in the new era. Second, spell out the three principles of economic cooperation in the Asian-Pacific area as the economic foundation of the U.S. strategy for that region, a region where the United States will contend for leadership with Japan. Third, keep a military presence in the area as a security pillar of the Asian-Pacific strategy. In the post-cold war era, U.S. officials have emphasized, U.S. troops in Asia will become a force for "maintaining regional balance" instead of keeping the Soviet Union at bay. In the Middle East and the Gulf, the United States envisions a regional security structure dominated by itself. The United States will keep air and naval forces of an appropriate size in the Persian Gulf, step up cooperation with the Gulf Cooperation Committee, and support the six Gulf states, as well as Egypt and Syria, in establishing a Gulf security contingent. An effort will be made to limit the flow of arms into the region and create a "new strategic balance" favorable to the United States to ensure U.S. economic and strategic interests in the Gulf and the Middle East. In Latin America, the United States is proposing to develop an "American enterprise," starting with the creation of a "North American free trade area," to be gradually enlarged into an Pan-American free trade area. The idea is to counteract the challenge from Europe and Asia with their trend toward economic regionalism and protect strategic backyard of the United States. 5) Capitalize on the shock wave created by radical changes in the Soviet Union and Eastern Europe and zero in on the economic weaknesses of the Third World to impose harsh conditions for economic aid and induce Third World nations to accept Western values and Western political and economic institutions.

6. The China policy of the United States has undergone a change since the 4 June events and U.S.-Sino relations have entered a new era. Bilateral relations in the new era will include both positive and negative elements. On the one hand, the United States stresses China's long-term strategic value and makes the case for consultation and cooperation with China in all major global and regional issues. On the other hand, it makes the Western view on human rights an important element of its China policy, thus hampering the restoration and development of U.S.-Sino relations.

III. Difficulties and Prospects of Adjustment

By promptly readjusting its foreign strategy following the demise of the cold war, the Bush administration has improved the U.S. global strategic position to a certain extent. At a time when its economy is declining compared to others, the United States should be able to maintain its current unrivaled position in the world at least to the end of this century, its ambition to be the "sole superpower" greatly boosted by its victory in the Gulf war. But times have changed. In implementing its new foreign strategy and Bush's "new world order," the United States is bound to face hurdle after hurdle along with a good deal of resistance:

1. The strength of the United States does not match its ambition, a point driven home by the Gulf crisis. The United States found it necessary to rely on its allies and seek extensive international support to make up for its own financial shortfall and avoid presenting itself as the "lone international gendarme." To finance the Gulf war, the United States had to raise as much as \$46 billion (with the United States itself shelling out just \$15 billion) among foreign nations. On the one hand, Bush stresses that U.S. "leadership" is irreplaceable. On the other hand, he is forced to admit that the U.S. economy is overburdened. He said, "The U.S. economy today cannot be more fragile. No longer can the United States involve itself in every economic or military crisis overseas, staggering as it does under heavy dependency on foreign oil and a huge federal debt load."² U.S. media have acknowledged that "a United States sinking under a sea of debt is a far cry from the giant of freedom after the war." If the United States cannot pull off an economic resurgence and sort out its domestic problems, it will have a hard time exercising leadership.

2. There are numerous unbridgeable gaps between the goals the United States pursues guided by its own foreign strategy and objective realities. What shape should the new Europe take? West European nations have their own plans for the future of the continent, which are not exactly identical to the "new Atlantic doctrine" loudly trumpeted by Bush. Regarding the future role of NATO, the United States and Europe do not see eye to eye either. The United States also has different strategic considerations from those of Western Europe and Japan when it comes to hammering out a post-cold war new order in the Middle East and Asia and the Pacific. Japan and Germany, which are becoming more and more powerful, will increasingly insist on equal status with the United States and fight for a more powerful voice in international affairs. The future development of the situation in the Soviet Union is the greatest uncertainty in the execution of the new U.S. foreign strategy. Should the Soviet situation take an adverse or sudden turn, that would be a severe blow to U.S.-Soviet relations and U.S. foreign strategy. The conflicts, contradictions, and clashes between the United States and Third World nations are bound to intensify the struggle between oppression and anti-oppression.

3. Even more important, a great debate is going on in the United States right now revolving around the U.S. role in the world in the post-cold war era. One school of thought advocates intervention and calls on the United States to play world policeman. Colin Powell, chairman of the Joint Chiefs of Staff, said, "When the world needs a policeman, who would be called upon to keep peace? We, the United States." Another school of thought consists of so-called "neo-isolationists" or "new American nationalists." Its representatives (such as Pat Buchanan, a former presidential adviser) argue that the United States should "protect its self-interests only" and not "those of other nations." They want the United States to roll back its overseas commitments, withdraw its troops from

abroad, and minimize involvement in foreign military conflicts while concentrating its resources on revitalizing the domestic economy and going all-out to enhance overall U.S. strength and prepare the nation for the even more severe challenges of the 21st century. This debate is interwoven with the debate between those who think the United States is in decline and those who think the nation is in the ascendant. Commenting on the self-congratulation which overtook the nation over its role in the Gulf war, Paul Kennedy said, "The euphoria over the nation's ability to flex its military muscle at short notice, while understandable, does not show us what our real role should be in the world. On the contrary, it tends to make people forget the vital nonmilitary foundation of a nation's power."³ The debate over the kind of role

the United States should play in the post-cold war world will necessarily have a vast impact on the adjustment and implementation of U.S. foreign strategy.

Footnotes

1. An article by Professor Robert Taft of Johns Hopkins University in FOREIGN AFFAIRS, Autumn 1990.
2. From a speech by Bush to a Joint Session of Congress, 11 September 1990.
3. Remarks made in response to question by reporters from the German weekly DER SPIEGEL, 3 September 1990.

Mao's Talk on Literature, Art Revalidated

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[Article by Cheng Zhiwei (2052 1807 0251), Yan Zhaozhu (0917 2507 2691), Tu Tu (3205 6634), and Dong Xuwen (5516 1331 2429): "Guiding Principles for the Flourishing of Chinese Socialist Literature and Art"]

[Text] **Introductory note:** *On a spring day in 1991, capital city literature and art critics Tu Tu, Cheng Zhiwei, Dong Xuwen, and Yan Zhaozhu gathered in a western suburb of Beijing to re-read Mao Zedong's brilliant work, "Talk to the Yanan Forum on Literature and Art," which had been published 49 years earlier, and to talk freely about what they themselves had learned from studying it. This magazine invited them to organize their statements into an article for publication here as a way of expressing the ardent love of all comrades at the magazine for the speech and in commemoration of it. The order in which the articles are presented is according to the number of strokes in characters for the writers's surnames.*

Life Is the Fountainhead of Literary and Artistic Creativity—Cheng Zhiwei

In his "Talk to the Yanan Forum on Literature and Art," Mao Zedong stressed the issue of the fountainhead of literary and artistic creativity. He said: "A storehouse of literary and artistic raw material exists in the daily lives of the people. This material is in a natural state and a crude state, yet is also the richest, most vivid, and most basic. In this regard, these materials make all literature and art pale by comparison and they are the sole inexhaustible fountainhead of literature and art. This is the sole fountainhead because there can only be one such fountainhead. There can be no second fountainhead." He went on to summon "China's revolutionary writers and artists, and promising writers and artists to go among the masses and to live among the worker, peasant, and soldier masses for a long period of time; to plunge into the fiery struggles unconditionally and wholeheartedly; and to go to the most extensive and most abundant fountainhead to observe, learn from, study, and analyze all people, all classes, all the masses, every lively way of life and way of struggle, and the firsthand raw materials of all literature and art. Only after this can one be qualified to enter the creative process." Re-studying this earnest instruction from Chairman Mao 49 years later, one still senses that it is so correct and so cordial in pointing out the creative road that socialist writers and artists must take. I deeply believe that that it will continue to guide generation after generation of aspiring and promising writers and artists in advancing along the high road of socialist literary and artistic creativity.

My reason for saying this is because these words of Mao Zedong scientifically reveal the dialectic relationship

between literary and artistic creativity and the people's daily lives. They reveal an important law of literary and artistic creativity itself.

Literary and artistic creativity is definitely not a product innate within the brains of writers and artists nor is it a writer and artist product of absolute "subjectivity" and "self." Even though, insisting that literary and artistic creativity is not consistent with any object, some artists and writers start from subjective idealist ideas, but creativity is entirely something that "flows" out of their brains. Nevertheless, all one has to do is read their works which invariably betray the influences of objective life, either good influences or bad influences, and either a right influence or a wrong influence. Even "works" in the category of "books from heaven" that no one can understand and which reportedly the authors themselves cannot explain clearly, actually reflect their ignorance, their confusion, their mistaken notions, and their skewed understanding or distorted ideas about objective things. They most certainly do not issue spontaneously from their brain cells. As Lu Xun said: "Even for people who lived in the past, there is no such thing as so-called 'pastoral poets' or 'mountain woodland poets' whose poetry completely transcended politics nor any poets who completely transcended the human world. Had they transcended the world, naturally, there would not have been poetry. Poetry is also a human endeavor. The existence of poetry evidences the inability to be detached from human endeavors." ("The Ways of Wei and Jin and Their Essays, and Their Relationship to Medicine and Wine.") He maintained that literary and artistic works are also "human endeavors" that reflect human life. Works that "completely transcend the human world" do not exist. The sense of this is completely identical with Mao Zedong's statement that literary and artistic works reflect the daily life of the people. To say that literary and artistic works are "products from elsewhere" or "products from within oneself" that can transcend the daily life of the people obviously runs counter to the nature of literary and artistic works. It is a mistaken subjective idealistic perception.

Our urging of writers and artists to go down among the masses and to plunge into fiery struggle is for the purpose of enabling writers and artists to live forever at the fountainhead of creativity where they can constantly obtain the most vivid and richest source materials for creativity, "taking them endlessly, and using them without exhaustion." This is the greatest concern for, cherishing of, and encouragement to writers and artists. True writers and artists can understand this point.

Going among the masses is not to say that one has to live for a long period among people with whom one is not familiar. For example, those writers who write mostly about the life of intellectuals should live mostly among intellectuals. If they are not familiar with, do not understand, and do not have a knowledge of intellectuals, they will not write well about intellectuals. Should they also live among workers, peasants and soldiers? Of course, they should. Workers, peasants and soldiers are the

principal part of the masses. Their work and daily life is intimately related to society as a whole; it plays a decisive role in society's advancement. How can we fail to respect, cherish, be concerned for, and be thoroughly familiar with them? Therefore, to make regular use of every opportunity to walk and look around among the peasants and soldiers, to understand their thinking and feelings, and to learn from their wonderful character holds countless benefits for dealing correctly with all sorts of people and matters and causes no harm to the improvement of one's own spiritual state. As for putting intellectuals in the correct relationship to workers, peasants, and soldiers, a good portrayal of intellectuals is very beneficial. Those writers and artists who specialize in depictions of daily life in factories, rural villages and military units need all the more to live for long periods among workers, peasants, and soldiers. Otherwise, they will be unable to reflect the daily life of workers, peasants and soldiers, and accurately and vividly depict workers, peasants, and soldiers in an artistic way. The purpose of living among workers, peasants, and soldiers is not only to obtain source materials for creative work. Of greater importance is the use of the lofty ideological character of workers, peasants, and soldiers to transfer the ideology of writers and artists themselves in the establishment of a proletarian scientific world view. Mao Zedong said: If intellectuals get together with the masses of workers and peasants, and become friends with them, they can turn what they have learned from books about Marxism into something of their own. The "Talk at the CPC All-China Propaganda Work Conference" established a scientific world view, and contained rich and profound accumulations of experiences from life that makes it possible to use the Marxist point of view and methods to analyze source materials taken from daily life. Going from superficialities to inner workings and getting rid of the false while preserving the true makes it possible to create a socialist piece of writing that is both new and wonderful. Since it is acknowledged that life is the fountainhead of creativity, going among the mass of people and among workers, peasants, and soldiers is a matter of importance. However, under influence of the bourgeois liberalization trend of thought of recent years, some people have touted "salon literature," and "guesthouse literature," or "fun literature." Some people even say that literature is feces, that the function of literature is to relieve oneself. By their logic and sophistry, writers and artists have no need to go among the masses. All they need do is get together a bunch of like-minded "buddies" or "sisters" and stay in a luxurious guesthouse where they can "gabble" and "have a good time," and then inexhaustible and astounding works will come pouring forth in an endless stream. "Laurels from new and outstanding people" and "stars" will arrive at once and payments for their works will come rolling in. How comfortable, how footloose and fancy free, how uncomplicated, and how fashionable this kind of literary and artistic creativity! Sadly, all the "salon" literature that is "cranked out" is rubbish, dregs, and even poison. The

"authors" and "artists" who live in such a "small coterie" are actually "cultural shysters" and "cultural hoodlums" who employ literature and art as a means of humbugging the public and pulling the wool over the eyes of ingenuous youths. They are certainly not right-minded people from the world of literature and art. We urge the broad masses of readers to increase vigilance against such "new stars" or the "older generation" and their "works," and not be taken in by them. Nowadays quite a bit of fake or second-rate merchandise can be found in shops. Consumers who have been cheated have begun to remove the scales from their eyes and be more discriminating. Spiritual products, including both phony goods and drugs, are also frequently seen. Likewise the broad masses of readers must be asked to wipe the scales from their eyes and truly discriminate in order not to be cheated or deceived. Distinguishing the genuine from the fake and the good from the bad among spiritual products is obviously more difficult than for material products. It requires a clear head and sharp eyes to "guard against being cheated."

Yet another new situation in the literary and cultural world merits attention. Some things included in the works of writers and artists are events or persons such as can be found or may exist in real life, but they are all backward, ignorant or ugly things in life, or bloody and dark aspects of life. You say there is no life in their works and that their works are not realistic; you say that what they write is real life, but that people find it unbearable, feel resentful, or are even indignant about it. The "life" that they write about is actually a tributary or an eddy of life; it is the dark side, the shameful side, or the cruel side of real life. In these kinds of so-called "realistic" works, the society in which we live holds no brightness, justice, right, kindheartedness and beautiful prospects to speak of. Most existence is only darkness, treachery, ugliness, and hopelessness. We do not deny that today's society has tributaries and eddies, and even countercurrents, but it also has a main stream and rapids. It is a thing that moves along positively, and advances gloriously. If one looks at life with a biased view, intentionally ignoring its main parts and concentrating on what is secondary; hurting what is beautiful and showing off what is ugly; depicting life as muddled, stinking, and filled with ugliness and corruption, that really distorts life and uglifies life. The consequence is to make the readers despise life and reject society, thereby creating ideological chaos and damaging tranquility and unity. The life that such works depict seems true in a partial sense, but looked at in overall and essential terms, it is not real. This way of reflecting life is not socialist in character; such works of literature and art are also naturally not socialist in character.

Clearly, the principal that life is the fountainhead for creativity does not mean that everything in life may be included in literary works, but rather it means that life should be analyzed and differentiated. The source materials that reflect the main stream of life and a correct direction should be selected for inclusion in literary

works. If a non-mainstream thing is to be written about, it should serve only as a foil. It certainly cannot be exposed and put on display with a non-critical and admiring attitude. The naturalistic depiction method was deemed unworthy even by upright authors in the feudal period as well as by bourgeois authors, so how can socialist authors use it unthinkingly and as they like? Where has the sense of social responsibility of those who write such works and the conscience of artists gone? The alarm must be sounded about them.

Life is the fountainhead of creativity. This is the way it was in the past, is today, and will still be in the future since this is an eternal truth and an objective law of literary and artistic creativity. Is it not true that numerous authors have said they want to perform according to the laws of literature and art? Sticking to the fountainhead of creativity means sticking to life, which means performing according to the laws of literature and art. The opposite is to run counter to the laws of literature and art.

It is necessary to persevere in unconditional participation in life for a longer period of time to absorb the sweet waters of creativity. It is also necessary for writers to analyze life and refine life using the Marxist standpoint, point of view, and methods. It is necessary for writers to reflect the mainstream and the essence of life in their works; to reflect the triumph of truth, goodness and beauty in the battle against falsehood, badness, and ugliness; and to encourage the masses to struggle to create a happier and better life. This shows a completely accurate understanding of the meaning of the phrase, "life is the fountainhead of creativity." Only by bearing firmly in mind this truth stated by Mao Zedong and incorporating it into practice can socialist writers and artists improve and advance. It is the only way they can steadily create works that are worthy of the times and worthy of the people. The successful creative experiences of numerous accomplished socialist authors and writers fully attest to this point.

Respect the Laws of Art; Dare To Develop Creativity—Yan Zhaozhu

Mao Zedong Thought on literature and art is a brilliant banner for guiding the victorious advance of socialist literary and artistic endeavors. In commemorating the 49th anniversary of Comrade Mao Zedong's "Talk to the Yanan Forum on Literature and Art," we should inculcate lofty aspirations and great ideals. We should persevere in, apply, and develop Mao Zedong Thought on literature to create more outstanding works of literature and art that are worthy of the great people and worthy of the great age.

Of course, in recent years some people have attacked and discredited Mao Zedong Thought on literature and art. They have described "the Talk" as "the politics of literature and art," and as "external laws substituting for internal laws." They have said that the "nub" of Mao Zedong Thought on literature and art is a "lopsided

emphasis on the practical political function of literature and art," which has led to a so-called "loss of the innate character of literature and art," a "marked deterioration of the creativity vitality" of authors, and a "great depression" of literary and artistic creativity, etc.

In "the Talk," Comrade Mao Zedong noted that "We oppose works of art having an erroneous political viewpoint, and we also oppose the so-called tendency toward 'sloganeering' in which the political viewpoint is correct, but there is no artistic strength. We must wage a two-front battle on questions of literature and art." Thus, to maintain that "the Talk" has to do only with political orientation to the neglect of artistic laws and to the neglect of artistic improvement is fundamentally at variance with the reality of "the Talk."

Indeed, "the Talk" addresses basically two issues: "One is the issue of serving the masses, and the other is the issue of how to serve the masses." This raised and elaborated, in turn, the fundamental orientation of our literature of serving the workers, peasants, and soldiers, and the fundamental course that requires that our literary and artistic workers be linked to the masses of workers and peasants. One might say that this is the main theme and the marrow of "the Talk." It is the fundamental spirit of Mao Zedong Thought on literature and art. Today the problem is, does this apply to the "external laws or the internal laws" of literature and art? Does this apply only to the political orientation of literature and art and not to the special character and laws of art? There is no use denying the existence of diametrically opposed views on this issue or that fairly serious ideological turmoil about it has appeared among some comrades.

Actually, Comrade Mao Zedong said very clearly: "The issue of what people are to be served is a fundamental issue and an issue of principle." This is not only to say from a political standpoint that it is an issue of political orientation and political principle, but rather is to say that from an artistic standpoint it is an issue of the fundamental laws of literature and art and the principles of creativity. This is because no literature or art is an isolated, individual, spiritual phenomenon, but rather one that stems from the social ideology of the specific society. In a class society, it always serves a specific class. Just as in philosophy, one thing is always defined by its relation and correlation to other things, in literature too the issue of what people to serve also defines the fundamental nature and fundamental laws of literature and art per se. Therefore, the issue of what people are to be served is a fundamental one, and an issue of principle for all literature and art. Service to the proletariat and to the mass of people is where the fundamental character and basic laws of proletarian revolutionary literature and art lies. Naturally, literature and art have other characteristics and laws as well; however, all of them must be subordinate to the fundamental character and laws of literature and art. Only by mastering the fundamental character and fundamental laws of literature and art can

one correctly know and understand the other characteristics and laws of literature and art. The issue here is not the boundary line between "external laws" and "internal laws," but rather the distinction between fundamental laws and general laws. Actually, "the Talk" discusses the laws of art in terms of this point of view and method.

For example, continuity exists in the development of literature and art, and naturally, this is an important law of art. However, Comrade Mao Zedong did not discuss the continuity of literature and art in isolation, but rather he discussed the continuity of literature and art in relation to the fundamental law of whom literature and art serves, thereby providing a correct and profound exposition. He said: "We must continue the rich literary and artistic legacy and fine literary and artistic traditions that China and foreign countries have inherited from past ages; however, the goal still remains to serve the masses. We certainly do not reject the literary and artistic forms of past ages; however, in our hands, these old forms are to be transformed and provided with a new content, which is to say they are to be transformed into revolutionary things that serve the people." This means observing and studying together the continuity of literature and art and the fundamental law of whom literature and art is to serve. Thus, the continuity of literature and art must consist of a revolutionary development of what is useful or healthy and discarding what is not. A critical examination must be made to separate the essence from the dross, transforming ancient forms for use today, foreign forms for Chinese use, and using them to express a new content. In proletarian, revolutionary literature and art terms, this means attaining the goal of serving the people and obeying the fundamental law of serving the people. In addition, from an examination of this fundamental law of what people to serve, "the Talk" provided a scientific position for literary and artistic continuity in the literature and art development process. It noted that "We positively cannot refuse to carry on and borrow from ancient peoples and foreign people, no matter that what we borrow may be things from the feudal class and the bourgeoisie; to do so would be to make a distinction between the civilized and the savage, the coarse and the refined, the high and the low, and the fast and the slow." It also said that "carrying on and borrowing positively cannot become a substitute for one's own creativity." It also said in a critical tone that "totally uncritical copying and imitation of ancient and foreign literature and art is the least promising and the most harmful kind of literary dogmatism and artistic dogmatism." Therefore, "the Talk" warmly summons writers in the revolutionary bases to "forge links with the new masses without delay." Only in this way can they write outstanding works that express the "new man and the new world," propelling the literature and art movement of the "revolutionary bases and the literature and art movement throughout China to a glorious new stage." It must be said that these statements not only profoundly elucidated the fundamental law of why literature and art should serve the people, but also in a profound way explained continuity in the development of literature and art. "The Talk" was

able to attain this ideological achievement because of the correct mastery of the fundamental laws of literature and art, using this as a point of departure for exploring other characteristics and laws of literature and art. How can one say that "the Talk" said little about the laws of literature and art, or that it is difficult to use as a guide for literary and artistic work? Obviously, this cannot be said.

However, how do those who advocate that literature and art "return to itself," focusing on discussion of the "internal laws" of literature and art, understand continuity in the development of literature and art? Events during the past several years show that such sentiments make continuity in the development of literature and art into an uncritical "systematic transfer" and a mechanical copying and imitation of contemporary Western capitalist literature and art. This is to regard temporary Western literary and artistic concepts, artistic substance, and form as a "modern consciousness" to be aped at every step, such mechanical copying and imitation substituting for their own creativity. This is no continuity at all in the development of literature and art, but rather it is the "least promising, and most damaging kind of literary dogmatism and artistic dogmatism." Traced to its source, this is exactly the inevitable result of some people belittling, rejecting, and negating the issue of whom literature is to serve and how it is to serve them as a non-artistic "external law." Actually, they themselves have not escaped from the limitations of the fundamental laws of literature and art because their advocacy of "completely Westernized" literature and art, as well as their proclamation that socialist works are not as good as capitalist ones, reveals that they are serving the bourgeoisie. They do not want to say so directly, so they speak in terms of literature's "return to itself."

Just the foregoing demonstrates powerfully that Mao Zedong Thought on literature and art explains artistic laws. It not only explains the fundamental character and laws of literature and art, but also explains other important characteristics and laws of literature and art. It also instructs us in the Marxist standpoint, viewpoint, and methods for continuing to probe the other characteristics and laws of literature and art. This holds enormous significance in guiding both theoretical study and literary and artistic creativity.

It must be pointed out that Mao Zedong Thought on literature and art not only emphasizes understanding of the fundamental laws of literature and art, but also devotes close attention to the intense study of other laws. To give an example, "the Talk" discusses not only continuity in the development of literature and art, but also discusses the dialectical correlation between beauty in life and beauty in art, the dialectical relationship between classical principles of creativity, substance, and form and the conduct of free competition and literary and artistic criticism in terms of the science of art, etc. In addition, Comrade Mao Zedong subsequently creatively

proposed the innovative principle of combining revolutionary realism with revolutionary romanticism, and explored the problem of thinking in terms of images and common esthetic perception, and proposed a "double hundred" plan [let a hundred flowers blossom and let a hundred schools of thought contend] for the "free development artistically of different forms and styles, and the free contention scientifically of different schools, etc." The poems that Comrade Mao Zedong himself created not only became the brilliant practice of Mao Zedong Thought on literature and art, but also contained a rich esthetic content. Needless to say, this naturally also guided the socialist artistic creativity of our writers and gave impetus to the valuable spiritual enrichment of flourishing socialist literary and artistic endeavors.

In short, Mao Zedong Thought's exposition of artistic laws was both extensive and profound, and held real guiding significance. Under today's historical conditions, we must better study, apply, adhere to, and develop Mao Zedong Thought on literature and art to create outstanding works that are worthy of the great people and the great age. This is our finest commemoration of "the Talk."

Socialist Writers and Artists Must Consciously Inculcate a Sense of "Service"—Tu Tu

In his speech to the Yanan Forum on Literature and Art, Comrade Mao Zedong stressed what people revolutionary literature and art should serve, and "how to serve" them. He stressed: "What is the nub of our problem? I believe our problem is basically a problem of serving the masses and how to serve the masses. If these two problems are not served, or if these two problems are not solved properly, a disjunction will result between our literary and art workers and their environment and tasks that will cause them to encounter a series of problems internally and externally." This is to say that in Yanan during the period of the War of Resistance Against Japan, Comrade Mao Zedong regarded the "problem of which people to serve" as a "fundamental problem" and a "problem of principle" in revolutionary literature and art.

Actually, in real literature and art during any period a problem always exists of who is to be served; there is always a problem of whom to serve. It is simply that some people consciously realize this point, while others are not conscious or are oblivious to it. In order to judge the basic character of any literature and art, to examine in an analytical way various literary and artistic happenings, and to forecast the trend of development of literature and art, one must first dissect the fundamental problem of who is to be served. The so-called "literature and art for literature and art's sake," "beauty for beauty's sake," or "for itself" etc., is seemingly a stance for absolute detachment from a sense of "service." Actually such sayings more intensely reveal their own idea of whom to "serve." The basic divergence here is in whether literature and art is for the purpose of serving

the most widespread masses or whether it is to serve an individual, a small coterie, or a small group.

One of the most marked distinctions between socialist literature and art, and past literature and art of every description is the open and clear-cut call for revolutionary literature and art to serve consciously the "millions upon millions of working people." During the period when proletarian literature and art first appeared, Marxism's progenitors ardently expected that an increasing number of writers and artists would "realize the nature of the proletariat," would "extol the stubborn, all-powerful, and revolutionary proletarians," and "propagandize socialism." When the Russian proletarian revolution was in its most difficult period, Lenin further made clear that proletarian literature and art "is not for the purpose of serving sated and idle noble women, and not for the purpose of serving the utterly bored, worryingly fat 'tens of thousands of uppercrust people', but is to serve the millions upon millions of working people who are the elite of the nation, the strength of the nation, and the nation's future." Comrade Mao Zedong linked the foregoing basic line of thinking of Marx, Engels, and Lenin to the realities of the War of Resistance Against Japan. Inasmuch as an overwhelming majority of the "most widespread people" to be organized were workers, peasants, soldiers, and the urban petit bourgeoisie, he more specifically called for revolutionary literature and art to "serve these four kinds of people." He also said: "Our literature and art is for the mass of people. It is first of all for the workers, peasants, and soldiers; it is created for the workers, peasants, and soldiers and it is for the use of workers, peasants, and soldiers. It should be noted that this basic requirement and direction that Comrade Mao Zedong issued to revolutionary writers and artists nearly 50 years ago remains correct today in its overall principle and spirit."

Naturally, after nearly 50 years of historical changes, China left the revolutionary period of the new democracy to enter the new stage of socialist modernization, reform, and opening to the outside world. The themes and the historical tasks of this new era place new demands on the country's revolutionary literature and art. The form and structure of the historical concept of "the people" have undergone substantial changes. During the historical period of socialism, the intellectuals have become a part of the working class. Realization of the four modernizations, and the building of a distinctively Chinese brand of socialism is the nation's overall strategic goal today. Under these new historical conditions, the CPC Central Committee has called for a major orientation of literature and art toward "serve the people and serve socialism." The enunciation of an orientation of "serving two" is overall a continuation and development of "serving the broadest mass of people, the workers, peasants, and soldiers first." The two are identical in their essentials. Furthermore, "serve the people and serve socialism" is more in keeping with national circumstances during the present stage, and more clearly sets the basic direction of the country's

socialist literature and art during the new era. It also better helps a distinctively Chinese brand of socialist literature and art develop and prosper.

The people are history's innovators and main reliance. All progressive and revolutionary literature and art is closely linked to the mass of the people. Socialist authors and artists must consciously and spontaneously identify with the people, breathe as one with them, share their fate, demonstrate their outstanding qualities and their great achievements, shape a genuinely sensitive personal image as innovators in building the four modernizations, and serve in fact as well as in name as "engineers of the human spirit." After the victory of the great October socialist revolution, in a conversation with Klara Zetkin, Lenin noted incisively the flesh and blood relationship existing in many regards between socialist literature and art and the broad masses of the people. He said: "Art belongs to the people. It must put down firm roots among the broad masses of working people. It must be understood and loved by the masses. It must bind together the masses in feeling, thinking, and expectations, and enable them to rise. It must arouse the artists among the masses and enable them to develop." This means that whether in terms of its well springs, its character, its audience, its role, or its social function, literature and art cannot be divorced from the people. "The people are the mother of authors and artists." "The people need art and art needs people even more." Forget this point and every wonderful author and artist who supposes himself to be a genius can take the wrong road and be rejected by history.

Literature and art must "serve the people" and it must also "serve socialism" as well. The two are completely identical. Unswervingly taking the socialist path to build a distinctively Chinese brand of socialism is the most correct choice that the Chinese people have made from nearly 100 years of intimate knowledge. Only socialism can save China, and only socialism can give our country's 1.1 billion people freedom and happiness. The sincere support and the all-out investment in socialist modernization of the broad masses of people results from socialism being consistent with the fundamental interests and highest aspirations of the people. Furthermore, it is the inevitable direction in mankind's historical development. Of course, the initiation, perfection, and development of socialism is a very long process. Always having smooth sailing and forward movement is not possible. While traveling this difficult, tortuous, and bumpy road that goes through mankind's ideological realm, various hardships, setbacks, and obstacles are unavoidable, and sometimes there will be reverses and partial failures. Lenin said long ago that "in both the past and the future, every age has its separate, partial, and sometimes-forward and sometimes-backward movement. There are always various tendencies separated from the general movement and the general speed of movement." Nevertheless, the twists and turns, the reverses, the retreats, and the detours on this advancing road cannot change the overall trend of historical development. In the end it cannot stop mankind from

reaching the new communist world. This is because what takes the place of the old bourgeois society in which various classes as well as class antipathies exist will be a partnership in which conditions exist for each individual to develop freely and for all people to develop freely. (*Communist Manifesto*). In this society, neither exploitation nor oppression will exist; the broad masses of working people will be the true masters of society, and literature and art will only then be able to become the wealth of all mankind and a true realm of freedom attained.

The Third Plenary Session of the 11th CPC Central Committee ushered in a new phase of socialist modernization. The building of the four modernizations wholeheartedly and with one heart and one mind is the key task of our people that supersedes all else for a fairly long time to come. During the present period of international instability, and in a complex climate of sudden changes, the building of a distinctively Chinese brand of socialism holds even more profound and far-reaching historical significance. The final 10 years of the present century is an extraordinarily important period in the historical process of China's socialist modernization. As the "CPC Central Committee suggestions on the drawing up of a 10-year plan for national economic and social development and the Eighth Five-Year Plan" emphasize, whether we will be able during the 1990's to consolidate and develop the achievements made during the 1980's and to further promote vigorous economic development and social progress to enable China to move into the 21st century in higher spirits is directly related to the rise or fall and the success or failure of socialism and has a bearing on the future of the Chinese race. For some time to come, the struggle to realize this magnificent objective is the central task of the whole party and the people of the whole country. Naturally it is also the central task of all writers and artists. Socialist writers and artists must respond positively to the party's call. They raise their own sense of mission, sense of responsibility, and sense of urgency, and consciously strengthen their sense of literature and art "serving the people and serving socialism" to make the contribution they should make.

In "the Talk," Comrade Mao Zedong said that on the issue of whom our literature and art serves, Marxists, particularly Lenin, provided the answer a long time ago. Among "comrades engaged in literary and artistic work at individual bases for resistance to Japan, this question seems already to have been answered and requires no further discussion. Actually, this is not the case. Very many cadres have yet to obtain a clear-cut reply to this question. Consequently, in their feelings, in their work, in their actions, and in their views about literature and art policy questions, inevitably there occur, to one degree or another, situations that are not consistent with the needs of the masses and that are not consistent with the needs of real struggle." A review of the situation in the country's literary and artistic life during the past several years, and a restudy of Comrade Mao Zedong's speech of 50 years ago make one ponder and reflect

deeply. As a result of the serious unchecked spread of the bourgeois liberalization trend of thought, the feelings, works, actions, and statements of some writers, artists, and critics are already far from consistent with the needs of the masses and the needs of real struggle, or they are seemingly in harmony but actually at variance with these needs. Instead, they energetically propagandize, advocate, and boost literature and art that is averse to expressing the signal achievements, the heroic struggle, and the selfless labor of the masses. They strive to separate and distance literature and art from the people, from the times, from life, and from real struggle to enter a time and space-transcending "internal universe" that is "oriented toward self," "expresses self," and "realizes self." Yet another extremely small number of "elitists" who stubbornly persevere in bourgeois liberalization carry on open, total, and vicious slander and attacks against Comrade Mao Zedong's "Talk to the Yanan Forum on Literature and Art," as well as the party's orientation in literature and art of "serve the people and serve socialism." They vilify "the Talk" as being "a bomb and gunpowder that is an element for instability in the political forum," and a "sword of Damocles," "that has to be completely repudiated and rebuilt," [as published] They distort the original sense of "serve the widest possible masses, the workers, peasants and soldiers first of all," purposely twisting it to read "for the peasants first," from which they then proceed to attack this correct revolutionary orientation as "taking the lead in concentrating on political incitement to meet the needs of revolution." They denounce "serve the people and serve socialism" as a kind of social utilitarianism in the arts that is "identical with" "making the arts have the same social effect or function as religion." Similar examples are numerous. This has the reverse effect of teaching us that perseverance in Mao Zedong Thought on literature and art and on upholding the orientation of socialist literature and art serving both the people and socialism will unavoidably be a long, complex, and serious struggle within the realm of literature and art. We must be ideologically fully prepared to meet challenges from all quarters to Mao Zedong Thought on literature and art and to the orientation of serving both the people and socialism.

The party's orientation of literature and art to "serve the people and serve socialism" and "let a hundred flowers blossom; let a hundred schools of thought contend" are interrelated and mutually advancing. In his "Talk on Literature and Art to the Yanan Forum," Comrade Mao Zedong said clearly: "Under the great principle of unity to resist Japan, we must permit the existence of literature and art that contains all sorts of political attitudes," and "we also must permit the free competition of all kinds of artistic works." In "On the Problem of the Correct Handling of Contractions Among the People," he said, "the policy of letting a hundred flowers blossom and a hundred schools of thought contend is a policy that advances the development of the arts and scientific progress. It is a policy that helps make China's socialist culture flourish." He also said that "the wording of this

policy shows no class character. The proletariat can use it; the bourgeoisie can use it; and others can also use it." Therefore, in carrying out the policy of "letting a hundred flowers blossom and a hundred schools of thought contend," standards for judging right and wrong must first be understood and applied. He prescribed six political standards in keeping with conditions at the time, the most important of which were the two regarding the socialist road and party leadership. Actually, these were prerequisites for and the orientation of the "double hundred" policy. One of the important expressions of bourgeois liberalization in the realm of literature and art is that it purposely separates and juxtaposes the policy of letting a hundred flowers blossom and a hundred schools of thought contend from the orientation of serving the people and serving socialism. It distorts the "double hundred" policy as a policy of liberalization that "has no prerequisites" and "no limitations," thereby basically negating and opposing the orientation in literature and art of "serve the people and serve socialism." For example, some people do all that is possible to spread the notion that "art and literature are just art and literature; they have value for their own sakes and do not serve anyone." Some people energetically insist that the "double hundred" policy should be a "unique" policy; there is no need for a separate "literature and art policy." Still others repeatedly preach that "literature and art do not belong to any class, so what need is there for a political party to lead it?" They say, "Stop always attributing an ism to literature and art. Attributing an ism has no advantage; it only binds creative people hand and foot." In short, they always want to use every possible means to distort and transform into a protector of bourgeois liberalization the correct "double hundred" policy of the proletariat for making science and the arts flourish. They want to completely negate and get rid of the great orientation of "serve the people and serve socialism."

In our view, since the "double hundred" policy is a policy to advance development of the arts and scientific progress, it is a policy that promotes the flourishing of China's socialist civilization. Thus, only by upholding the leadership of the party, adhering to the socialist road, and maintaining an orientation of "serve the people and serve socialism" can it be genuinely implemented and enforced. "Serve the people and serve socialism" prescribes and points out the overall orientation and overall goal in developing the country's literature and art. Thus, "let a hundred flowers blossom, and let a hundred schools of thought contend" provides the way and the means that are most beneficial, most workable, and most in keeping with objective laws for realizing and more quickly attaining this overall orientation and overall goal. Adhering to and sustaining the orientation and goal of "serve the people and serve socialism" not only makes it possible to follow the correct road for complete implementation of the "double hundred" policy, but also

enables this policy's healthier, speedier, and more complete enforcement. All patriotic, progressive, and revolutionary authors and artists should consciously establish a sense of "service", unite under orientation of "serve the people and serve socialism," focus on today, focus on the future, focus on the interests of the people, struggle to advance the flourishing of socialist literature and art, and not disappoint the party's and the people's earnest expectations!

Raise High the Revolutionary Importance of Writers—Dong Xuewen

The more the flint of truth is struck, the more it emits dazzling brightness. Chairman Mao's "Talk to the Yanan Forum on Literature and Art" was published 49 years ago. Nearly half a century of buffeting by the elements has made it durable and renewed it. It still radiates the theoretical vigor of its youth.

Every time I read "the Talk," a warm current courses from the bottom of my heart. It is like the waters of a long river that nurtures millions upon millions of warriors in literature and art. It is like the green pines of Baoda Mountain that support the edifice of proletarian revolutionary writers and artists.

When all sorts of absurd arguments and weird theories are advanced to attack it in the literary forum, and when all sorts of calumny is heaped on the Marxist view of literature and art, by simply thumbing through "the Talk," I immediately feel that I possess a "mirror that detects demons," and a "telescope," and I am much relieved of anxiety and much more enlightened.

Let us turn to the "theory of the main purpose of literature" that some people tout, which was once so fashionable, so popular, and that confused so many writers and readers. Some who support the "theory of the main purpose of literature" insist on saying that the Mao Zedong Thought on literature and art, which "the Talk" represents, "strangles the writers's purpose," "does not understand esthetics," and is "political utilitarianism." However, mumbo-jumbo is mumbo-jumbo after all. "Facts are unfeeling things." The scientific view of the purpose of literature that "the Talk" reveals cannot be obliterated by the slander of anyone.

We must say that publication of "the Talk" aroused to the limit the creative initiative and zeal of writers and artists. Its publication encouraged writers and artists to strive to overcome and to triumph over all subjective and objective difficulties and dangers and boldly commit themselves to lofty artistry. Its publication urged and beckoned authors and artists to the maximum degree to the conscious shaping by themselves of a new and beautiful spiritual world. Its publication stirred the purposefulness of progressive authors and artists, which was given fullest play in magnificent revolutionary practice. How can anyone say that "the Talk" disregards "the main purpose of literature"?

Chairman Mao's view of the purpose of literature and art was divided up into five parts, namely the "standpoint question, the attitude question, the object of work question, the work question, and the study question." This was a place in which literature and art strategists and literature and art ideologues were more enlightened than run-of-the-mill theorists, and it was also a place in which Chairman Mao was incomparably profound. The "main purpose" problem is, bluntly stated, a question of the position and worth of a person. The "main purpose of literature," bluntly stated is a matter of the status and value of the people who are the authors, the readers, and the objects of the literature. The main purpose is people. Therefore, there is no doubt at all that in making the most of the main purpose of writers, a question of viewpoint exists; a question of the kinds of feelings and attitude adopted toward all sorts of things exists; a problem of solving the question of for just whom one's works are intended exists; and a vocational problem of "understanding people and being thoroughly familiar with people" exists. Those will never never do who simply follow their own inclinations without bothering to inform themselves about scientific theoretical guidance, do not study society, regard themselves as "nonrationalists," and pursue "supra-class love," abstract love, abstract freedom, abstract truth, and abstract human nature, as well as suppose themselves to be brilliant.

Chairman Mao was making a full exposition of the main function of writers in these five regards. Clearly, unless the questions in these five regards were answered, so-called bringing into play of positive purpose was only an empty phrase.

In "the Talks," Chairman Mao spoke especially to "the issue of serving the masses," and to "the issue of how to serve the masses." He noted particularly that writers and artists must "effect a change in their own thinking and feelings." He noted particularly that when facing raw materials for literature and art in the daily lives of the people one has to "do the creative labor of a revolutionary author" to shape works. He specifically said that if one does not draw sustenance from the masses and is separated from reality, one will become a "castle in the air devoid of content and devoid of vitality." Chairman Mao also said explicitly that "empty and dry dogmatic formulas" are enormously damaging to creative feelings. Are any of these points not closely related to the issue of the main purpose of literature?

Some theoreticians very much like to summon literature to "turn inward," "return to the innermost being," and "return to the internal universe." If such a formulation simply emphasizes the need for literary and artistic creativity to pay attention to the richness of the mind and the complexity of the soul, one must say that it is not too far from the mark. However, only a little bit of examination and a little bit of comparison with the call of the lofty world of the spirit is required to discover that it is not right. Fundamentally, the connotation of this so-called "return to the inner universe" is actually the publicizing of a "world of the spirit" in which the

individual is the common denominator that holds to a theory of abstract human nature, that is selfish, that is subconscious, and that is even dark, sordid, and instinctive. One might well use an elegant statement from Chairman Mao's "the Talks," that said somewhat politely "is it the deep recesses of the soul or is it the private preserve of bourgeois intellectuals?" They feel it beneath their dignity to use their own innermost feelings to elucidate the signal achievements of the people. They are unwilling to sing the praises of the proletariat and the working masses. They use the nonsensical word "love" as a fig leaf to cover up their individual desires and aspirations, extending and expanding it to all mankind and the whole universe. At such times, the "spiritual purpose" of some writers may be very strong, but what similarities does it share with the purpose of the progressive class and the masses of the people?

I remember a philosopher having said the following: The soul of a poet is an echo of the world. If a poet expresses only his innermost feelings, he will become an utterly bereft pauper (the general idea). Yes indeed. The response, expression, and reflection of an author takes human life as its subject matter, its background, and its raw material. When he departs from this one and only fountainhead, his innermost being will be a pallid wasteland. If at this time, he brazenly expresses a so-called "spiritual purpose," he will become a "a piano gone mad," (Lenin's words). He will become a "madman" in terms of literary creativity who has abandoned himself to Bohemianism. He will play discordant sounds in the harmonious and splendid symphony of human literature and art. Such a "main purpose" is nothing more than an expression of the sickness of one who is not in his right mind.

I know of an author who started out by trying to give the appearance of following the materialist view of history in writing about intellectuals' pursuit of and enjoyment of "food" and "sex" in an extraordinary time. Even though his writings lacked a human component and failed to analyze motivation, the writings still showed some strength, capability in art being affected by life, and art expressing life. They conveyed a certain realistic discrimination. Later on, however, taking the road of "bemoaning the state of the universe, pitying the state of mankind, and trying to find himself," the author traveled into a domain of "habitual doom." His spirit broke into fragments that constant love making could not repair. He began to declare that only through love making was it possible to "prove one was alive." Through the mouth of a young modern woman poet's mouth he said that "China is a huge monastery; only when China becomes a huge whore house will it progress" and other such outrageous words. What can one say when this notion that "the ultimate lies between a person's two legs" is inflated to such a degree of rigidity in describing an author's "spiritual purpose" and the "purpose of practice!" The work abolishes the "line between the profane and the sacred." It praises endlessly the obscene as well as character and morals that permit

indulgence in carnal desires, says shamelessly that the vile side of human nature is a most beautiful and most wonderful thing, and revels in the exhibition of naked obscenity. Let me ask, when a writer's "main purpose" reaches such a state, how can there be any talk of truth, goodness, and beauty on this earth? Should not the creative feelings behind such "literary purpose" be smashed? It seems that Chairman Mao was right when he said in "the Talks" that "I believe it is necessary. It is necessary to smash them utterly, and along with the smashing to begin to build new things."

One might say that literature in which the individual himself is the standard is one view of the purpose of literature, but that literature in which the masses are the standard is another view of the purpose of literature. The main purpose of the former is absolutely unconditional "self." The main purpose of the latter is to reflect and express the "self" in the people's daily life. The former emphasizes individuality; it is egotistical in character. The individuality that the latter advocates is individuality that benefits others. The former depicts innate human character abstractly as a "two legged animal" that is animal in character, and dishonestly as "all loving" in character. The latter regards innate human character as being the sum of all social relationships. The former regards the main purpose of the group to be placing limits on individual freedom and hampering a sense of individualism, while the latter regards group emancipation and individual emancipation as an interdependent dialectical unity. The former tries to "dig into" and "regress to" a mysterious, illusory "inner universe," while the latter tries to explain the practical style of transforming one's own subjective world while transforming the objective world. The former regards the freely competitive capitalist system of private ownership as a subjectively "self-realizing paradise," while the latter breaks the old shackles from the world to bring forth a new society in which all mankind is free of class exploitation and oppression as a subjective sacred duty.

In their thinking, and in their inherent make-up, these two views of the purpose of literature are sharply antithetical; they are entirely different from each other.

Chairman Mao's "the Talks" laid a solid and brilliant foundation for the latter view of the purpose of literature, and made an incisive, systematic, and unprecedented clarification and appraisal of it. This is the place in "the Talks" that is most remarkable in the history of human thought on literature and art, and it is also the fundamental reason why "the Talks" have repeatedly encountered the deep-seated hatred and the repeated attacks from "theorists on the purpose of literature" who maintain an idealistic historical view.

Let us read "the Talk"! Its respect for the individual and for the mass of people; its approval for pioneering spirit and historical initiative in the history of the masses of people; and its stimulation and its respect for the

unbounded artistic potential of writers and artists will be bound to make you feel that all other works that you read pale by comparison.

One might say that all doctrines on the purpose of literature that instigate the generation of spiritual aristocrats are insignificant and lamentable. Only doctrines about the purpose of literature that encourage the perpetual linking of authors and artists' hearts to the party, to the motherland, and to the people can strike deep roots in the recesses of the souls of progressive authors and artists and grow into towering trees in the fertile soil of creativity. Only they can become lighthouses to guide writers and artists in life's sea, so they can withstand wind and waves to sail toward the light and the future. Chairman Mao's "the Talk" is such an engine of the soul; it is such a beacon to guide the way. It is a shining light and a dynamic propelling force for revolutionary authors that will forever be a theoretical treasure from which we can take without limit and use without exhaustion.

Remedies Proposed for Rural Government

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[Article by Di Chengguang (6732 0042 0342), 37-year-old male research fellow in the Marxism-Leninism Institute of the Anhui Provincial Academy of Social Sciences: "Status of Rural Grassroots Government Building and Remedies for Problems"]

[Text] *The author maintains that, since reform, problems exist in the building of rural government at the grassroots level in townships and towns in the form of failure to straighten out relations between the party and government, a serious situation of government taking over the prerogatives of enterprises, conspicuous conflicts between higher and lower levels, insufficient use of the functions of government and People's Congresses in society, inflation of government organs, poor cadre quality, gaps in the legal system, decline in work efficiency, and strained relations between cadres and the masses. Solution to these problems awaits the deepening of reform, and the key to reform lies in better building of rural government at the grassroots level.*

More effective building of rural grassroots government holds extraordinarily important significance for the building of modern socialist rural villages that are distinctively Chinese.

I

The new Constitution passed in December 1982 by the Fifth Session of the Fifth National People's Congress provides for reform of the system whereby government administration and commune management were part of an integrated whole in people's communes. It requires the separation from communes of that part of the system that functioned as a political organization, replacing it

with an independent township and town government political organization to serve as the rural organization of state power at the grassroots level in China's people's democratic dictatorship. This major reform is not only an objective necessity in the development of China's rural economy, but is also a summarization of the country's experiences in building rural political power at the grassroots level. In October 1983, the CPC Central Committee and the State Council specially issued the "Notice on the Separation of Government Administration and Commune Management for the Founding of Rural Government," the better to carry out this provision of the Constitution. Explicit provisions covered various major problems in reform of the rural grassroots political power system and the building of rural grassroots political power. This marked the beginning of the separation of government administration and commune management in the spirit of the Constitution and of the provisions of the "Notice." The work of founding rural government gradually unfolded throughout the country, and was entirely completed in February 1985. Today a total of 69,842 township (or town) government organizations have been built nationwide.

Reform of the rural grassroots administrative system, separation of government administration from commune management, and the building of township and town political authority has as its main goal a change in the overcentralization of power that existed during the people's commune period when CPC Committees monopolized everything, with "no distinction between party and government, and no separation between government administration and enterprise management." It aims at straightening out relationships in all regards, enhancing the building of rural grassroots political power, making full use of the functional role of rural grassroots-level political authority, meeting the needs of rural economic system reform, promoting the building of the "two civilizations" [material and spiritual civilization], and the development of democratic government in rural villages. Practice during the past several years demonstrates that these goals in reform of the rural grassroots political power system have been realized in varying degrees. Initial success has been achieved in the task of building township and town political authority.

We must realize, however, that, since not much time has passed since the separation of government administration and commune management for the founding of township and town political authority, a series of associated reform measures related to this change has not kept pace. As a result of this, as well as the effects of other factors, some problems in urgent need of solution still exist today in the building of rural government at the grassroots level. A survey of the actual situation in the building of political power in a number of townships and towns in Jiangsu, Anhui, Hubei, and Hunan Provinces shows that the main problems may be summarized in the following 10 ways:

1. Relations Between the Party and Government Not Yet Straightened Out

Although the situation in rural grassroots organizations of no distinction between party and government, and of the party substituting for government, improved following the separation of government administration from commune management and the building of township and town political authority, this problem has not been fundamentally solved. Relations between the party and government have yet to be straightened out. The Fifth Plenary Session of the 13th CPC Central Committee decided that the problem of a separation of party and government at the township and town primary level was to be "solved after county primary-level relationships are straightened out." This is consistent with the real situation existing in China's rural villages. However, we cannot, on this account, maintain the former system whereby the CPC Committee monopolized everything, not straightening out relationships that must be straightened out and that can be straightened out. Today a universal situation exists in the township and town leadership system in which there is no distinction between party and government and there is a lack of clarity in relationships, and it is extremely serious. In townships and towns, the CPC Committee secretary is number one and the township or town head (a position that the CPC Committee deputy secretary frequently holds concurrently) is number two. In setting up township and town teams, higher authority gives priority consideration to the quality of the CPC Committee, and the quality, capabilities, qualifications, and record of service, and prestige of the CPC Committee secretary is usually greater than that of the township or town head. Higher authority work assignments and inspections are also done through the township or town CPC Committee, the CPC Committee being responsible for them and carrying them out. The CPC Committee holds the power to appoint and remove personnel and is the highest decisionmaking authority for all political and economic work in the township or town. When a meeting is held, the CPC Committee "runs everything," and when work is done, the CPC Committee "takes everything into its own hands." The CPC Committee secretary takes charge of all. The functions of government organizations are seriously weakened and atrophied to the point where legally constituted authority can scarcely be effectively exercised. In short, there has been a resurgence of the situation in which the party and the government are one and the same. Unless this problem is satisfactorily solved with all possible speed, the functions of township and town government organizations will continue to weaken and atrophy or even be completely taken over. At the same time, however, it will also be difficult to do more to build the rural party organization; thus, the prestige and leadership role of the party will continue to decline and weaken.

2. Serious Situation of Government Taking Over Enterprise Management

When government administration was separated from commune management in the setting up of rural governments, individual townships and towns set up township

and town collective economic organizations (the names of which vary from place to place) in accordance with the requirements of the "Notice" from the CPC Central Committee and the State Council. However, as a result of the lack of clarity in the separation of functions and the failure to straighten out the relationships of the CPC Committee and government to economic organizations, economic organizations in an overwhelming majority of townships and towns did not become relatively independent economic entities. Under these circumstances, the establishment of economic organizations could not give impetus to development of the rural economy, but rather only added a "second government." Now, some townships and towns have abolished the economic organizations, and the CPC Committee and government have directly centralized and monopolized enterprises' authority over manpower, finances, and materials, even to the point of taking over completely their actual production and operating activities, thereby further buttressing enterprises' administrative dependency on government. Even in cases where township and town economic organizations have not been abolished, they exist in name only, lacking the decisionmaking authority over production and operation that they should have. Township and town CPC Committee and government control of township and town enterprises administration and management authority, and their receipt of all sorts of fees from them and even their sharing in or taking over their profits while bearing no direct economic responsibility has not only depressed enterprise zeal and initiative, thereby hampering the development of a commodity economy, but has also brought in its wake all sorts of harmful phenomena and provides a hot bed for the growth of corrupt practices.

3. Conflict Between Higher and Lower Levels Conspicuous

The disjunction between higher and lower levels and between different departments or regions is one of the serious problems that must be solved in the establishment of rural grassroots political power. For various reasons not only was no good solution found to relations between higher and lower levels and between different departments or regions after the separation of government administration from commune management in the establishment of township and town governments, but conflicts between the two levels became worse. Today the conflicts between higher and lower levels show up mostly in the following three regards: First is the departmentalization of functional agencies; township and town governments lack arms laterally and have too few legs vertically. During recent years, one county functional unit after another has extended its "legs" into townships and towns, setting up their own agencies or branch and subbranch organizations. At the same time, some county units have used incorporation tactics to transform organs that were formerly under township and town control into their own "legs." Reportedly, of the rapidly inflating township and town agencies today (more than 30 in some townships and towns), only an extremely

small numbers (only two in some townships and towns) are completely under the direct leadership and control of the township and town government. The large and small functional organs that higher levels control are like the "embassies" of "individual countries" in townships and towns. They are living in houses of the township and town government and enjoying the welfare that the township and town government provide, but they do not have to accept the township and town governments' assignments. They individually hold authority in some regards, and each can issue orders. Township and town governments "get no response," and are "unable to take charge," making difficult the normal performance of their work. Second is the inverse ratio between authority and responsibility. "The agencies eat meat, but the local governments gnaw on bones." As a result of the disjunction between upper and lower levels, township and town governments are in the position of "never having anything good come their way, but never having anything bad miss them." Anything from which a profit can be made is taken over by the agencies, and all the prickly, difficult-to-handle matters are left for the township and town governments. The agencies act as they please, benefit as they please, and even tyrannize as they please. Township and town governments have responsibility without authority and unspeakable difficulties. Township and town cadres universally report that nowadays the agencies do not serve the government, but rather the government serves the agencies. Third is unfair distribution, as a result of which township and town cadres have developed a serious psychology of rivalry and discontent. Nowadays, the pay and allowances of personnel who work in the same township and town government office differ greatly. Some people divide township and town cadres, staff members, and workers into three classes. In the first class are the cadres under higher level control whose pay and allowances are most liberal. Not only do they enjoy all the pay and allowances that township and town cadres enjoy, but they also enjoy all sorts of special emoluments such as "bonuses," "position subsidies," and "official uniform fees," as well as other improper income and unfair benefits. In the second class are cadres in the township and town administrative table of organization. The pay and allowances of these people is markedly lower than that of the higher level cadres. Each person has an actual income of between approximately 200 and 700 yuan each year. In the third class are the temporary workers that the townships and towns have themselves enrolled or hired. Mostly they come from rural households and are responsible for providing their own food. They do temporary work, and their pay and allowances are naturally lower. This kind of unfair distribution resulting from distinctions between higher and lower levels produces considerable apathy. People feel that doing a good job is not nearly as important as having a good standing, which seriously hurts their work.

4. Failure To Use Fully the Function of People's Congresses in Society

Both the Constitution and the "Local Organization Code" stipulate that township and town People's

Congresses are organs of state power at the grassroots level. However, township and town congresses currently act but little because they lack necessary standing bodies and there is no system for forming them. "The congresses come into being only when meetings are held; when there are no meetings, they do not exist." So far they have been unable to exercise in an authoritative way the essential powers provided by law. As regards decisionmaking authority, for example, the law provides that township and town congresses have authority to decide plans for the building of economic and cultural facilities and public utilities within their own administrative areas, as well as for carrying out plans for civil government work. However, since such tasks are extremely complex, in actual practice it is very difficult to do complete planning of them in the township and town congress sessions that are held for only an extremely short period once each year. Another example may be found in authority to appoint and discharge personnel. The law stipulates that township and town congresses may elect and have the authority to discharge township and town heads and deputy heads. In practice, however, township and town heads are transferred frequently, sometimes several times during their terms in office, or the authority to appoint and discharge them is exercised only once each year when the People's Congress convenes. So how is it possible to ensure that the process of township and town government cadre appointment and discharge will be conducted strictly according to law? Yet another example may be found in supervisory authority. The law stipulates that township and town People's Congresses have authority to annul inappropriate decisions and orders of township and town people's governments. However, since township and town People's Congresses have no standing bodies, how can the exercise of this authority await the once-a-year convening of People's Congresses? In short, the current actual position and role of township and town congresses is very inconsistent with the position and functions stipulated by the law.

5. Difficulty Discharging Government Functions

Both the Constitution and the "Local Organization Code" stipulate that the township and town people's government is a primary-level organ of state administration. It is responsible for carrying out both the decisions of the People's Congress at that level and the decisions and directives of state administrative organs at a higher level, for issuing decisions and orders, enforcing economic and social development plans and budgets within the local administrative region, and exercising control over administrative activities within the local administrative area, including economic, educational, scientific, cultural, health, and physical education matters, as well as fiscal, civil government, public security, administration of justice, and planned parenthood activities. However, for the aforementioned two reasons (namely, the failure to straighten out relations between the party and government, and the universal existence of a situation in

which no distinction is made between party and government and the party takes over government functions; and the failure to straighten out relations between higher and lower levels, so that township and town government functions are under control of party-appointed agencies), the legally vested authority of township and town governments exists in name, but not in fact. Thus, it is naturally very difficult for them to play their functional roles.

6. Organization Inflation and Personnel in Excess of Authorized Strength

Numerous "titles" and numerous personnel are two conspicuous problems found today in township and town government organs. Despite the clamor for "streamlining" in recent years, township and town organs have inflated rapidly, and township and town cadres have also rapidly increased in number in the midst of the clamor for "reductions." Organs of various kinds in many townships and towns total approximately 30 today. Some leading cadres hold several positions concurrently, their titles so numerous that even they themselves are uncertain what they are. Accompanying the rapid inflation of township and town organs has been a year-by-year increase in township and town cadres, so that overstaffing exists everywhere. A substantial number of townships and towns have between 40 and 50 employees, and in some cases as many as 70 or 80. Authorized strength is about 20; thus, many organs take on or hire temporary personnel. This inflation of government organs and situation of overstaffing occasions some bad consequences: First is difficulty shaping a work focus; second is a dissipation of the energies of leading township and town leaders; third is an increase in township and town financial burdens; and fourth is damage to relations between cadres and the masses.

7. Cadre Corps of Rather Poor Quality

Thanks to various means employed during recent years such as selections, transfers, and inviting competitive applications for positions, township and town organs have obtained a number of middle-aged and young cadres of rather good political and professional quality. Consequently, the makeup of the township and town cadre corps is better than formerly. It has largely become a younger corps, and it is in process of becoming a better educated one as well. In an overall sense, however, the poor quality of the township and town cadre corps remains fairly glaring. First, the poor quality of the cadre corps, from leading cadres to the rank and file, shows up largely in a general lack of administrative and managerial knowledge and a poor ability to make scientific decisions and deal with real problems. Its professional level tends to be low. Second is a fairly poor understanding of policies, a not very strong conception of a commodity economy, a weak concept of democracy and the rule of law, and problematic work styles and work methods. Third is a slackening of cadre education in recent years, which has resulted in some cadres not having a very high ideological consciousness, poor

morale, much thinking about themselves but little thinking about the masses, and the steady growth and spread of apathy.

8. Numerous Gaps in the Legal System

Work at the grassroots level in rural communities consists of countless odds and ends. Every task has specific and strict requirements. Township and town organs of state power must discharge their own duties effectively and fully complete all work tasks, but this is very difficult to do unless they have a fairly sound legal system to provide support. During the past several years, rural reform has emphasized mostly economic matters, but very many and large gaps have been left on the political side, particularly in the building of a legal system. All that township and town cadres have today is the "Land Control Law" from the national government and the "Planned Parenthood Regulations" of individual provinces, municipalities, and autonomous regions. They lack the necessary solid regulations needed to handle other tasks; they have no laws on which to rely and no regulations to follow. Besides, under existing laws and regulations, problems exist in "fines substituting for punishment," with the result that laws and regulations do not play their intended role. For example, since having more children than the law allows requires only payment of a fine according to regulations, rural child-bearing shows a steady rise. As another example, even though those who take over land to build houses in violation of regulations are fined, the cultivated land area continues to decline sharply. Furthermore, because township and town People's Congress lack standing organizations, timely and effective discharge of legal supervisory authority is difficult. Among grassroots-level cadres, the word of cadres takes the place of the law, and instances sometimes occur in which personal authority takes the place of the law, and frequently it is impossible to deal with and correct matters.

9. Serious Decline in Work Efficiency

As was said above, because of the failure to straighten out the relationship between the party and government, the lack of distinction between the party and government, and the party taking over the functions of government, all of which exist to a serious degree, township and town government functions are weak and atrophied. As a result of the failure to solve the conflicts between higher and lower levels with functional agencies taking control, the actions of township and town governments are hampered at every turn and they do not operate effectively. As a result of the disjunction among responsibilities, authority, and benefits, and unfairness in distributions, some township and town cadres nurse grievances that hurt their interest and initiative in performing their work. In addition, the poor quality of cadres and the lack of a sound legal system inevitably result in township and town governments being unable to carry out their legally prescribed functions in an independent, complete, and effective manner. They lack the necessary authority and vitality. Work efficiency is closely related

to the authority and vitality of those doing the work. Since township and town governments lack the necessary authority and vitality to enable them to carry out their legally prescribed functions independently, completely, and effectively, how can their work be highly efficient?

10. Rift Occurs in Relations Between Cadres and Masses

Relations between rural grassroots-level cadres and the masses have become increasingly strained in recent years, and a marked rift has appeared. Policy questions aside, this rift stems more from the building of political power at the rural grassroots level. Because of the division between higher and lower levels under the current township and town system of government, most township and town government functional organs are under control of agencies at a higher level. All authority over personnel, money, and materials is located above, and, although township and town governments have duties and responsibilities, they lack the authority that goes with them. They lack administrative and economic means of regulation and control; they are unable to protect the interests of the peasants; and they lack the authority to make the agencies serve the peasants. Furthermore, the professional work of the agencies is frequently forced upon township and town governments in the name of higher level government. Thus, rather than acting as the representatives and protectors of the peasants' rights and interests, township and town governments frequently become executors of tasks that agencies should properly perform. Money collection, grain collection, and planned parenthood become the key tasks of township and town governments. Thus, the peasants in some places term township and town cadres the "three wants" (cadres who want money, want grain, and want life—planned parenthood). Since township and town governments lack real authority over personnel, money, and materials, they cannot provide the materials, funds, and technology that peasants need for production; therefore, whenever a township or town cadre hands down various tasks and directives in the form of an administrative order or coercive measure, he encounters resistance from the peasants and arouses intense peasant displeasure, thereby creating a conflict between cadres and the masses. In addition, the quality of some township and town cadres is very poor indeed; their work style is bad; and their way of doing things is simplistic and crude. They use force on people; their word is law; and they even illegally take people into custody, abuse their power, and purposely encroach upon the rights of the citizens. A small number of cadres even abuse their authority for private gain, manipulate power for extortionary purposes, and practice graft and corruption. This makes already conflicted relations between the cadres and masses even more strained and worse. It even produces marked rifts that hurt the image of township and town governments and increase the difficulty of township and town governments' work.

II

Rural grassroots political authority is the principal foundation of state power in China's people's democratic dictatorship. It is an important link in realization of the people's direct democratic rule; and it is an important bridge and hub for linking together the country's masses. It is an important point of departure and point of return for all the country's work. A genuinely good performance in building rural grassroots political power is of crucial importance in further consolidating the people's democratic dictatorship; developing socialist democracy; cementing the relationship between the state and the broad masses of peasants; stirring the enthusiasm, the initiative, and the creativity of the broad masses of peasants; and building new, modern, socialist villages. However, the foregoing situations show that a substantial gap still exists between the present situation in building rural grassroots political power and the goals to be attained. The writer believes that solution to this contradiction should at least begin in the following regards.

1. Straightening Out Relations in Both Directions for the Building of a Primary-Level Entity

The key to improving the building of rural grassroots political power today lies in making township and town governments a truly primary-level entity of state power. The most fundamental way of doing this is to straighten out both vertical and lateral relationships in both directions and to genuinely strengthen the building of organs of authority.

First is the need to straighten out vertical relationships. By so-called vertical relationships is meant mostly relations between higher and lower levels. Since township and town government is a primary-level organ of political authority, it must possess the power that goes with this status. The current system in which a disjunction exists between the higher and lower levels means the emasculation of township and town government authority, which results in the actual loss to township and town government of the character and role of a primary-level entity of political power. Therefore, the existing administrative system in which a disjunction exists between the upper and lower levels must be reformed, relationships between the upper and lower levels must be straightened out, and conflicts between the upper and lower levels must be solved. The key in doing this is to delegate to township and town governments the political authority that should be delegated to them in order to revive the powers of township and town governments, and to perfect the functions of township and town political authority. Specific consideration should be given to making township and town public security police stations, government finance offices, industrial and business offices, tax offices, and such administrative units an integral part of township and town government organizations under direct control of township and town governments in a "dual leadership" system in which township and town governments are

paramount and professional units in charge are ancillary in personnel and professional matters. Authority over personnel, finances, and materials of township and town supply and marketing cooperatives, credit cooperatives, grain stations, and food stations should be under central township and town government control. In professional matters, higher level departments in charge should be in charge. This would enable them both to look after special requirements of a professional character both above and below, and also facilitate township and town governments in helping more with their control over the direction of administrative services for the development of rural economic services. Authority over personnel, finances, and materials in township and town management stations, agricultural technology stations, forestry stations, seed stations, farm machinery stations, electric pumping stations, hydropower stations, and veterinary medicine stations, which are closely related to production activities, should be delegated to townships and towns, and they should gradually become administrative departments and management units under leadership of township and town governments. Higher level professional departments in charge should be responsible only for providing professional guidance. This is the only way to help unify government directives to ensure that township and town governments effectively harmonize and deal with relations among all township and town departments, completely discharge their own legally mandated duties, and play the functional role of a primary-level government.

Second is the need to straighten out lateral relationships. So-called lateral relationships mean mostly relationships among the party, government, and enterprises in the township and town leadership system. Overcentralization of authority is the main shortcoming in China's political system. The problem of overcentralization of authority in the township and town leadership system shows up not only in the centralization of authority in the hands of the higher levels in the relationship between higher and lower levels, but also in an overcentralization of authority in the hands of CPC Committees in townships and towns themselves. In view of the actions of the Fifth Plenary Session of the 13th Party Central Committee, and the present state of China's political system reform, it is still too early for a complete distinction between party and government and a separation of government administration from enterprise management at the township and town primary level. Nevertheless, in accordance with the principle of the separation of party, government, and enterprises, adherence to the unity of possibility (what should be) and reality (what can be) in the active setting of the stage for the gradual straightening out of the relationship among the party, government, and enterprises, particularly the relationship between the party and government, must be said to be not only necessary but possible. In principle, the main duty of township and town CPC Committees is to see to the implementation of the party line, plans, and policies, building ideology and organization in the party at the

grassroots level, enhancing the leadership of the Communist Youth League, the Women's Federation, and the militia, seeing to the peasants' ideological and political education, and promoting a steady change for the better in party spirit and social atmosphere. The specific functions of township and town People's Congresses and township and town people's governments have been spelled out in the "Local Organization Code." The duties of township and town collective economic organizations as economic entities under leadership of the township and town government consist mostly of helping the government fulfill agricultural, industrial, and sideline production plans under leadership of national plan and policies, as well as specifically managing well enterprises' manpower, financial, and material resources, organizing the production, supply, and marketing of all production and operating units; and serving the development of the rural economy. In straightening out the relationship among the party, the government, and enterprises, all possible must be done to overcome and reduce the lack of distinction between the party and government, and prevent the party from taking over the functions of government. On the lack of separation of government administration from enterprise management, government taking over the functions of enterprise management, all possible must be done ideologically, organizationally, in terms of the system, and at the leadership level to ensure that township and town party organizations, political power organizations, and economic organizations tend to their own duties, discharge their own responsibilities, exercise their individual authority, cooperate in the division of labor, support each other, coordinate with each other, fully carry out their individual roles, and do their work better in all regards.

Last is the need to reinforce township and town People's Congresses. Township and town People's Congresses are organs of state power at the rural grassroots level. These and People's Congresses at other levels make up the complete system of China's organs of state power. Furthermore, as a result of their own characteristics, they hold a special position in the overall system of political authority. Today, however, since township and town People's Congresses have no standing bodies, convene only once each year, and hold sessions for only one or two days, once the congress adjourns, the work of the township and town congress comes to a virtual standstill. This clearly reveals a structural problem in setting up township and town People's Congresses. This means that township and town level organs of state power are not realistic, and it is an important reason why they are still unable to discharge to the full the legally mandated functions commensurate with their legal position. The 18th session of the Sixth National People's Congress Standing Committee made pertinent revisions to the "Election Law" and the "Local Organization Law" in December 1986, which enhanced the authority of the township and town People's Congress presidium. Thereafter, in order for the presidium to discharge its functions, some jurisdictions set up a full-time standing

committee chairman at the time of new township and town People's Congress elections. This standing committee chairman is to serve as an organization to handle matters when the township and town People's Congress is adjourned, with responsibility for keeping in touch with delegates, organizing delegate activities, supervising and urging on inspections of how well the government is implementing the decisions of the People's Congress, reporting delegate views about government employees, and maintaining liaison between the masses and the government. Although this system has not been in operation for very long, and though each jurisdiction has different methods of operation, its results have been remarkable. Thus, it should be endorsed and further improved. The writer believes that it would be best to establish a township and town People's Congress standing committee composed of two- or three-man work teams responsible for the day-to-day work of township and town People's Congresses, and regularizing them through legislation. In addition, consideration should be given to increasing the number of times that township and town People's Congresses meet and to lengthening the period of time that township and town People's Congresses are in session in order to meet the needs of the work of township and town People's Congresses. This would ensure in terms of the system, organization, and time, that township and town People's Congresses would be able to carry out their legally mandated responsibilities at an unhurried pace.

2. Readjustment of the Structural Setup; Defining a Rational Organizational System

The "Local Organization Code" stipulates that township and town people's governments may set up necessary work agencies as work requires and skilled cadres permit. The work agencies in township and town governments are functional organs of township and town governments that are separately responsible for township and town government administrative and management tasks in all regards. When carrying out the reform of separating government administrative from commune management, although the township and town government of each jurisdiction set up its own work agencies, most agencies consisted of a single person (usually termed an "assistant"). In some cases, a single person was in charge of several agencies. In only an extremely few cases did agencies consist of several people. The various tasks of township and town governments were under direct control of the township or town head, helped by the individual assistants. In reality, this was a one-man, one-duty assistant system under leadership of the township or town head. Though these organizations were small, they were complete. The institution of this one-man, one-duty assistant system under leadership of the township or town head, plus the insistence on the part of some higher level units on having counterparts up and down the line as well as laterally, this became one important reason for the rapid inflation of township and government organs and staffing during the past several years. This inflation of government organs and staffing

not only adversely affected the work of township and town governments, but also added to the burdens of the masses; therefore it must be changed at once. The writer believes that, first, it is necessary to proceed from reality in setting up township and town government organs, adapting general methods to local circumstances, and not insisting on counterparts up and down the line and laterally. Second, in setting up township and town government organization, the prevailing one-man, one-duty assistant system must be changed to an overall unit staffed with extremely capable cadres. Finally, overall consideration must be given to the staffing of township and town governments. The population of the town or township cannot serve as the sole standard for staffing. The staffing of township and town governments should be set independently on the basis of need, and, once set, it should be strictly controlled. There must be no arbitrary expansion of staffing or overstaffing.

3. Reform of the Cadre System; Improvement of Cadre Quality

Reform and perfection of the township and town cadre assignment system, stabilizing township and town leadership teams, fleshing out the township and town cadre corps, and improvement of township and town cadre quality is a key aspect of the building of rural political power at the grassroots level. The present situation requires, first, reform and reduction of the appointment system and perfection of the election system, with the establishment and expansion of the system of inviting applications for vacancies and the system of examination for appointment, the competition mechanism being introduced thereby into the building of the township and town cadre corps for the creation of a climate in which the capable rise and the mediocre sink. Second is a strict term-of-office system for township and town cadres that ensures that the legally set term of office is honored in a change from the present situation in which township and town leading cadres are frequently transferred without benefit of legal procedures during their term of office. Third is the need to build a system of vertical and lateral rotational assignments of cadres that encourages cadres in county organs to work at the township and county level and that encourages cadres from wealthy districts to serve in poor districts. Insofar as possible, preferential pay and allowances should be accorded such cadres. Fourth, township and town cadres, particularly township and town leading cadres, should be given job training in groups at different times in party schools, cadre schools, and training classes in order to improve them ideologically, politically, and professionally.

4. Strengthen Links in the Legal System and Perfect the Operating Mechanism

The operating mechanism in rural political power at the grassroots level is very incomplete. This is demonstrated principally in both failure to abide by laws and not having laws to abide by in the organization of township and town government organization. To a very great extent, township and town governments do as they

please without following orderly legal procedures. Consequently, the building of rural political authority at the grassroots level lacks a support mechanism. Therefore, better building of rural political authority at the grassroots level requires that we strive to strengthen links in the legal system to improve the township and town government operating mechanism, the actions and work of township and town government organizations thereby gradually following the orderly path of the legal system. First, relations between upper and lower levels and among party, government, and enterprises must be straightened out and laws and systems must be used to regularize them, thereby giving them a more legal basis. Second is improvement and perfection of the township and town People's Congress organizational system and work system, laws and systems being used to guarantee the position of township and town congresses and the effective discharge of legally prescribed duties. Third is the need to establish and improve the various work systems of township and town governments as well as a personal responsibility system for all functional units and their employees, thereby making the work of township and town governments and their functional organs more procedural, more standardized, and more scientific. Fourth is building and perfecting laws, rules and regulations, and systems relating to the work of township and town government organs and their work, including laws, rules and regulations, and systems for planned parenthood, agricultural byproduct taxes, collective withholdings, and farmland water conservancy capital construction. This will provide township and town cadres with laws on which they can rely and regulations they can follow in carrying out their work. In the performance of their duties, no longer will they resort to illegal acts that violate the citizens' rights such as pulling down houses, carrying off furniture, driving away livestock, or arbitrarily arresting people.

5. Change of Work Style; Improvement of Work Methods

In the eyes of the broad masses of peasants, workers in township and town government organs, particularly leadership cadres, personify township and town political authority. They epitomize state power. Their work style and their work methods not only influence relations between the township and town government and the broad masses of peasants, but also affect relations between all state power and the broad masses of the

peasants. As was said above, the strained relations between rural cadres and the masses, and even the occurrence of rifts, stem not only from policies and the system. Another extraordinarily important reason is problems with the work style and work methods of rural grassroots-level cadres (including, of course, cadres in township and town government organs). There, better building of rural political power at the grassroots level requires improving relations between rural cadres and the masses, and even improving relations between the entire party and state with the masses of peasants. Township and town cadres must genuinely change their work style and improve their work methods. The most important thing to be done in changing work style is to insist on investigation and study, seek truth from facts, proceed from reality in all cases, and link theory to practice in order to link the party line, programs, and policies to the realities of the local area. The mass line of "from the masses and to the masses" must be upheld, believing in the masses, relying on the masses, doing everything for the masses, and serving the masses with might and main. It is necessary to practice democracy, modesty, and prudence, not be arrogant or rash, be adept at listening to differing views, not be imperious or despotic, not be overbearing, and not be like a prickly pear no one dares touch, and so forth. Most important in improvement of work methods is to change the former work methods of "going off half-cocked," "issuing confused orders," and "acting with arbitrary uniformity." Instead, specific circumstances should be concretely analyzed, tailored guidance given, and distinctions made in dealing with matters. In changing the former management system in which there is "no distinction between party and government," and "no separation of government administration and enterprise management," the attendant work method of "going to the lower level to take charge of everything and returning to the upper level to divide up everything" must be changed. Instead, a work method must be used of "both separation and centralization, separating what should be separated, centralizing what should be centralized, combining separation and centralization, separation being paramount" attending the formation of a management system in which relations among the party, government, and enterprises are straightened out. The former sole reliance on administrative orders and "pressures and punishments" must be replaced by work methods that combine various techniques including administrative, economic, ideological, and legal, and so on.

NATIONAL AFFAIRS, POLICY

Article Analyzes Shareholding System

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[Article by Qin Qiaoping (1440 2556 7230): "Summary of Views on the Shareholding System"]

[Text] In the course of economic structural reform, the shareholding system has emerged in response to the times to become the "in" thing in enterprise reform. However, in the theoretical community people have never stopped arguing about whether or not it is possible to adopt a shareholding system under socialism and how. The debate has waxed and waned, reaching a new high in the past two years. In accordance with the spirit of the Seventh Plenum of the 13th CPC Central Committee, pilot projects in shareholding are still in progress and improvements are constantly being made. Thus a comprehensive understanding of the viewpoints being bandied about is immensely important for raising the standard at which research on the subject will be conducted and guiding its healthy development in practice. Below is a summary of the debate in the last couple of years.

1. Can a Socialist Economy Adopt the Shareholding System?

There are two diametrically opposed schools of thought on whether or not a socialist economy can adopt a shareholding system. The debate can be looked at from two perspectives: one, from the institutional or theoretical perspective; two, in the context of the actual conditions, as described below:

A) Is the shareholding system consistent with the nature of the socialist economy? Does it represent progress or regression?

One school of thought believes that the shareholding system is historically inevitable and that it is the most appropriate form for the reform of public ownership.

Huang Fanzhang [7806 5400 4545] considers shareholding best suited to realize the socialist ownership system. Because "the ownership of capital goods is absolutely not just a question of what belongs to whom. What is needed is a set of economic mechanisms to ensure that socialist ownership is realized and actualized in every important stage of the economic process. By transplanting the shareholding system to a commodity economy based on socialist public ownership; establishing a stock market, intermediate financial institutions, and institutional funds in the course of expediting the shareholding system; and relating the shareholding system to state planning and various policies intended to guide activities in the socialist market, we can create 'producer's sovereignty,' 'investor's sovereignty,' and 'consumer's sovereignty' to ensure that the 'ownership'

of whole people's capital goods will be effectively realized in the entire economic process instead of being nothing more than some nominal kind of ownership."¹

According to He Gaosheng [6320 6964 5110] and Chen Yu [7115 1938], "the enterprise that evolved from the shareholding company in the wake of the development of a commodity economy and socialized mass production has become an increasingly popular enterprise system in the world. Certainly it is possible for socialist nations as well to adopt this form to serve their own interests. The shareholding system is only a way of organizing the assets of an enterprise. In ascertaining the nature of a shareholding enterprise, we look at not only its shareholders but, even more important, also the mix of shares. Provided we design the nation's ownership structure properly to ensure that public ownership dominates or leads the entire national economy and provided we put together a mix of shareholding rights in an shareholding enterprise properly to ensure that the state owns the controlling number of shares in key enterprises, the bastion of socialist public ownership in China will not be weakened."

Another school of thought argues that introducing the shareholding system in China is essentially a regression, not reform.

Xiang Dong [0686 2639] says, "Replacing ownership by the whole people with ownership by shareholders, which is a combination of various ownership systems, may help the enterprise the enterprise concerned improve its management and raise its profitability. In general, however, because of the transfer of funds and because there is no assurance of the integrity and increase in value of state funds, the shareholding system weakens ownership by the whole people and the socialization of production. We cannot but call it a regression."²

Zhou Yuan [0719 0337] says, "The shareholding system is not in the direction of reform. To reform state-owned large- and medium-sized enterprises already under socialist ownership by introducing the shareholding system does not liberate those enterprises that are already basically better suited to the socialization and modernization of productive forces from the administration grip of the government and transform them into truly enterprises owned by the whole people that meet the requirements of developing a socialist planned commodity economy. On the contrary, it is a regression. It will once again go back to a private-cum-public shareholding system in which state shares, enterprise shares, and personal shares coexist."³

B) Is China equipped to introduce a shareholding system?

One school of thought is that China is not yet equipped to introduce a shareholding system.

As some people see it, three conditions must be met before a shareholding system can be extensively introduced. First, plentiful idle funds in society ready to be

absorbed by shareholding enterprises. Second, a citizenry that is highly investment- and profit-oriented and is ready to take risks. Third, an appropriate stock market. China meets none of these conditions. First of all, although the monetary incomes of the people have risen substantially, so has consumption. Second, while the idea of profitmaking is widespread among the populace, most people are not prepared to take risk. Therefore, there is no mass base for a shareholding system. Moreover, although the financial market has enjoyed some growth in recent years, what we have essentially is short-term inter-bank lending. The securities market is still in its infancy. Clearly we do not have an adequate market base for the introduction of a shareholding system among enterprises owned by the whole people.⁴

Mo Tianqi [0379 1131 0796] says, "As a modern enterprise management system created by a highly developed commodity economy, the shareholding system does not have the right environment in China in reality. China still lacks a developed market for the essential elements. It has no commercial credit and no financial market, which are the basis and technical prerequisites for a shareholding system. Stocks cannot be traded normally. Both labor and means of production are confined to the framework of the ownership system and subject to sectoral and regional restrictions. Given these conditions, the shareholding system is nothing more than a pie in the sky."⁵

Another school of thought is that China already meets the conditions for a shareholding system.

Wang Tiesheng [3769 6993 3932] believes that "we still lack a fully mature market and the quality of enterprise managers cries for improvement. However, the point is that we can only gradually improve new institutions in the course of practice. We cannot wait until everything is ready and then start to reform."⁶

Tian Guangping [3944 1639 1627] says, "Over the decade China's commodity economy has reached a certain level of development, improving the economic and social benefits of enterprises and boosting their profits noticeably. A huge amount of floating funds will serve as the fountainhead of funds for the introduction of a shareholding system. In addition, the improvement of the legal system over time will provide the legal guarantee of a shareholding system."⁷

2. Relations Between Shareholding System and Separation of Ownership From Management, Transformation of Property Rights

The introduction of a shareholding system will inevitably raise questions relating to deep-seated property rights relations in the state-owned economy. How will shareholding impact the separation of ownership from management or the reshaping of property rights relations in the state-owned system? On these questions too there are two schools of thought.

A) On the relations between the shareholding system and the separation of ownership from management.

One school of thought claims that a shareholding system can expedite the separation of ownership from management.

Lang Yihuai [6745 3015 2037] believes that by clarifying the property rights relations, establishing the enterprise as an independent legal person, promoting the separation of government administration from enterprise management, and weakening administrative interference, the shareholding system will pave the way for the transformation of enterprises into commodity producers and operators that have decision-making authority and are responsible for their own profits and losses. Second, by separating profits from taxes and paying dividends according to share ownership, the shareholding system determines the distribution relations between state and enterprise and strengthens property restraints.⁸

According to He Yang [6320 7122] and Sun Maohu [1327 5399 5706], "The legal person system of the shareholding system provides assurance for the separation of ownership from management." "In a shareholding system, the assets of a legal person enjoy relative independence and are protected under the law. That way management can achieve independence from ownership in a more complete sense of the word."⁹

The second school of thought is that a shareholding system cannot help separate ownership from management.

Some people say that the board of directors as presently constituted is essentially an organ of the state, that the enterprise manager is still appointed by the state, and that the state directly controls the enterprise through the board of directors.¹⁰

Others say that the shareholding system poses the separation of ownership from management with a grim challenge. "1) Management necessarily gives rise to ownership. 2) The separation of ownership from management is not the *raison d'être* for the socialist commodity economy. Decision-making authority for enterprises does not amount to ownership. 3) The dual functions of the state are blurred. 4) The main organ of production (enterprise) is responsible for profits, not losses. One, there is no reliable base for the economic autonomy of the enterprise. Two, there is no realistic economic base for the enterprise bankruptcy law."¹¹

The third school of thought is that the shareholding system will either merge ownership with management within the enterprise or separate them again.

Han Zhiguo [7281 1807 0948] says that the modern shareholding system creates the very tangible conditions for the merging of ownership and management within the enterprise. Both the ownership and management of a shareholding company are centralized in the hands of the board of directors as a legal person. Thus the basic

direction in reform is to develop the shareholding economy, get rid of the idea of ownership and management separation, and make the "integration of the two" the theoretical base for enterprise reform in China.¹²

Song Yangtan [1345 7402] says, "In the early days of a company's development, ownership and management are combined, that is, both are centralized in the hands of the company as a legal person and its organ—the board of directors. As the shareholding system improves and develops, ownership and management will become separated in a new form. This kind of separation is different from its old counterpart. In the former, management and labor management is regarded as a specialized form of labor and is gradually turned over to the 'housekeepers' involved in management activities on a long-term basis and highly experienced in the field—the stratum of company managers."¹³

B) Relations between a shareholding system and changes in property rights.

According to an analysis group in the Economics Institute of the Chinese Academy of Social Sciences, "state ownership should be separated so that the state retains 'ultimate ownership' and the enterprise obtains 'legal person ownership.' Find an organizational format that embodies that requirement. It seems that the shareholding system may become such an organizational format."¹⁴

However, Wang Yongzhi [3769 3057 3112] says that the issue of unclear property rights relations does not exist in enterprises owned by the whole people. Suppose, he says, we go along with the idea that property rights relations are unclear in enterprises owned by the whole people. Wouldn't the property rights relations of state-owned shares be unclear as well? In contrast, the property rights relations of enterprise shares seem to be well-defined—they belong to the enterprise. But who owns the enterprise? Can this kind of property rights relations be sorted out? The property rights relations of employee shares are well defined. But many workers cannot afford shares. Do we need this kind of clarity?¹⁵

He Wei [0149 0251] says that the main objective of the shareholding system is the diversification of property rights, not their clarification. "The principal goal of the shareholding system is to reform a homogeneous ownership system and bring about the diversification of property rights so that government administration can be separated from enterprise management and the subordination of enterprise to government can be brought to an end to meet the demands of commodity production. If a shareholding system is introduced merely to clarify property rights and separate enterprise into state shares and enterprise shares, then property rights will be very clearly defined. But that will not be a shareholding system in the real sense of the word."¹⁶

3. Distribution of Shares in Shareholding Enterprises

How are state assets converted into shares under a shareholding system? Are there enterprise shares? What do we make of personal shares? These are real problems that we will encounter in practice. The theoretical community has different opinions.

A) The distribution of state-assets shares

A variety of solutions has been put forward.

1) Xiao Zhuoji [5135 3504 1015]: "State-owned shares can be handled in either one of two ways. In some special sectors, the state may control the shares in part or in whole. In ordinary enterprises, the state may sell off most of its shares."¹⁷

2) Wu Jiexiang [0702 4471 4382] and Zhong Yurong [6988 5038 2837]: "Existing state assets should be converted into creditor's rights. New state assets should be turned into shares. Converting state assets into creditor's rights really means state investment should take the form of loans, not grants. Take the value of all existing fixed assets of an enterprise and convert it into a loan from the state to the enterprise. A bank, acting on behalf of the state, will accept interest payment from the enterprise each year. The ownership of any new assets created by the enterprise using profits it retains will belong to the enterprise but will be made over to its employees or other shareholders in the form of shares."¹⁸ But this viewpoint has its critics who believe that the existing assets should be converted into shares. To begin with, the conversion of new assets into shares in effect suggests the conversion of the surplus purchasing power on the market for consumer goods into surplus purchasing power of capital goods, thus defeating the purpose of controlling the scale of capital construction outside the budget. Converting existing state assets into shares, on the other hand, tends to withdraw currency from circulation. Moreover, the conversion of existing state assets into shares no doubt will be highly instrumental in increasing effective social supply. Finally, such a move will also reduce disruption attendant upon the transition from the contract system to the shareholding system.¹⁹

3) Some people have suggested that state funds be controlled by a newly established investment company. "It will be the responsibility of the investment and development management company to register and assess state assets and handle the transfer of property rights. It shall also, in its capacity as a shareholder, supervise and evaluate the way the manager increases the value of assets during the period of operation, as well as the rate of return on funds. It should be paid an appropriate amount of dividends at regular intervals. It shall also be allowed to control shares and send directors to guide and restrain the enterprise."²⁰

4) Yet others think that the introduction of a shareholding system does not amount to the conversion of assets into shares. "The conversion of properties into

shares is only an organizational format for the shareholding system. The question is how the shareholding system is going to bring about the effective integration of the mechanisms with its own unique restraining methods in the course of increasing the value of properties. So what counts does not lie in the conversion of assets into shares per se but whether such conversion will contribute to the effective integration of mechanisms."²¹

B) Should Shareholding Enterprises Introduce Enterprise Shares?

1) People in favor of introducing enterprise shares

Xiao Zhuoji thinks that the introduction of enterprise shares is an innovation in the Chinese shareholding economy. It is also the only feasible option given the reality in China. By and large, there are both rational and irrational aspects about enterprise funds. But whatever their source, the existence of enterprise self-retained funds formed over time is an objective fact. They are also legal. These funds should belong to the enterprise and to all its workers."²²

Song Yangtan says, "Enterprise shares are introduced because they clarify property rights relations. It is necessary for a socialist system to introduce a shareholding system because, first of all, it will help sort out the property relations within an enterprise and clarify the property rights muddle between state and enterprise. This is also the *raison d'être* for enterprise shares. In addition, enterprise shares help consolidate and develop state-owned shares, that is, state properties. Recognizing enterprise shares is enormously significant for unleashing worker initiative and improving the enterprise's operating mechanisms and functional behavior."²³

Wu Jiaxiang and Zhong Pengrong think that the offering of enterprise shares satisfies the demand of enterprise development. "First of all, it reduces the tremendous pressure put on the enterprise by the distribution of dividends among the shareholders. If all new shares are given to shareholders and individual workers, then all the accumulation of the enterprise will be eaten up by dividends when it comes time to distribute the new profits. Under pressure to pay dividends, the enterprise may act short-sightedly in order to pursue high profits. Second, offering enterprise shares enhances an enterprise's ability to survive temporary business failures. When profits are plentiful, the enterprise can use its accumulation to increase the number of enterprise shares. When the enterprise runs into difficulties and incurs a loss, it can sell off some enterprise shares to solve its cash flow problems."²⁴

2) People opposed to introducing enterprise shares

Han Zhiguo believes that the offering of enterprise shares may do the most to mess up property rights relations. "First, the immediate reason why a shareholding company issues shares is to raise funds in society. Yet the issue of enterprise shares effectively

means the enterprise must dig into its pockets to buy its own shares. Second, who should take possession of the shares and who should profit by them? These are tricky issues in practice. They may be held by the board of directors. But the board represents all shareholders. The fact that it represents this particular group of shareholders as well conflicts with the purpose for which the board of directors was originally constituted. If enterprise shares are held by the workers' representative congress or trade union or their elected representatives, then there will be even more conflicts."²⁵

Shen Kecang [3088 0668 0221] argues that the offering of enterprise shares has more disadvantages than advantages. "First, it militates against sound manpower circulation. Second, it will encourage the enterprise to adopt more capital-intensive methods of production. Third, employment opportunities will be artificially diminished. Fourth, given the desire on the part of a worker to make more money than the next guy, workers who have a relatively small number of enterprise shares and perhaps no shares at all will inevitably experience diminished enthusiasm for work. Fifth, the distribution of the incomes of enterprise workers would become irrational. Sixth, the financial burden on the state will be even heavier."²⁶

3) People who suggest that other kinds of shares, such as collectively common-held shares, be offered.

Jiang Yiwei thinks that enterprise collective shares may be introduced in a shareholding system dominated by public ownership. To begin with, the introduction of a shareholding system by an enterprise suggests the diversification of property rights. To let public ownership play the leading role does not mean letting ownership by the whole people play the leading role. Public ownership itself should be diversified. Second, the horizontal associations of enterprises necessarily involve a mix of ownership by the whole people, ownership by the large collective, and ownership by the small collective. It would be impossible, therefore, to exclude worker collective shares from the lineup of shares in an enterprise. Third, a shareholding enterprise dominated by public ownership may issue a specified percentage of employee collective shares and reinvest the dividends of those shares. This will constitute a stable source of enterprise self-accumulation, a powerful condition for the development of productive forces. Fourth, the offering of employee collective commonly-held shares, along with the individual shares of a cooperative nature, gives the collection of workers a powerful voice at the shareholders' meeting."²⁷

C) What do we make of worker shares?

1) "Some people think that the introduction of worker shares will lead to the following changes in economic life. First of all, worker shares lay a sound property rights foundation for the optimal organization of workers. Second, worker shares make it possible to introduce a positive incomes policy. Third, worker shares help meet

the requirements for technological progress. Fourth, the offering of worker shares would help overcome the conflict between the development of productive forces and effective demand and establish an internal mechanism for automatically balancing total supply with total demand."²⁸

2) Some people believe that the offering of worker shares would help mobilize worker initiative and intensify their sense of being in control. "The offering of individual worker shares would be highly favorable to enhancing the cohesiveness and competitiveness of the enterprise in question and raising the workers' concern and enthusiasm for it. The ownership of shares by the workers of an enterprise suggests that they are in control. It makes the workers feel that they share a common destiny with the enterprise."²⁹

Yet others disagree. They believe that when they buy a share, what workers care about most is not whether they are in control but whether or not they will reap a financial windfall from the shares. You say a worker becomes a master after he buys a share from his enterprise. But what happens when he sells it off? Does he remain a master? Thus we can see that there is not necessarily a cause-effect relationship between workers buying shares and being in control as master.³⁰

4. Assessing the Economic Results of the Shareholding System

A) Would a shareholding system reduce government revenues?

1) "Some people think so, basically for the following reasons. When dividends are distributed among enterprise shares, state shares, and individual shares and even converted into individual incomes, state revenues are reduced by a corresponding amount."³¹

2) Some people believe that a shareholding system stabilizes government revenues. "First of all, to secure the financial resources to discharge its functions in this area, the government must tax natural persons and legal persons by collecting such taxes as product tax, value-added tax, business tax, tariffs, income tax, salt tax, and resource tax. Second, the state lays claim to a share of the enterprise's after-tax profits by virtue of its ownership of state shares."³²

B) Will a shareholding system help rationalize enterprise behavior?

1) Some people think so. New assets come to be owned by shareholders. Thus the question of "converting enterprise ownership into state ownership" does not arise. Prompted by considerations of future interests, enterprises and individuals must think in terms of increasing the value of their assets. People who run the enterprise will no longer be responsible to the state but to the board of directors and shareholders. The question of "meeting a deadline" does not arise.³³

2) Some people think that even if the property rights of a shareholding enterprise are clarified, the enterprise will act myopically all the same. "Shareholding enterprises in Wenzhou continue to lack drive for development. In a majority of enterprises, the criteria by which dividends are paid out are too loose. Some enterprises fritter away their profits in the form of dividends. Moreover, they can readily move from partnership to sole ownership."³⁴

C) Will a shareholding system help adjust the industrial structure?

1) Some people believe that a shareholding system paves the way for rationalizing the industrial structure. "To begin with, by trading shares and through price movements, it enables the market to socially regulate the effectiveness with which enterprise assets are utilized. Second, when enterprises buy into one another, own one another's shares, transfer property rights, or merge with one another, the market enables society to evaluate the effectiveness with which social resources are utilized and the rationality with which productive forces are distributed, thereby lifting the barriers that have been separating property rights and enable them to circulate throughout society."³⁵

2) Yet others believe that the shareholding system will only make it harder to adjust the industrial structure. "Enterprises are driven to maximize their profits. This alone ensures that they will not give a damn about the industrial policy of the state. On the contrary, provided their products earn the maximum profits, they would keep on making them even if they are restricted by state policy. Similarly, if their products are not highly profitable, they will limit their production even though the products may be among those whose development is encouraged by the state. The result is an imbalance in the national economy further distorting an already lopsided industrial structure."³⁶

5. Problems That Arise in the Shareholding System in Practice

Because we still lack a clear understanding of the shareholding system and its nature and have no practical experience, the pilot projects in shareholding have run into all sorts of difficulties. Based on the data at hand, the problems can be divided into the following categories:

A) How the shareholding enterprise distributes profits.

1) Song Yang [1345 7402] says, "In distributing its profits, a shareholding enterprise must separate profits from taxes. First of all, the enterprise must pay taxes out of its profits at the rate of about 30 percent. Right now dividends are paid out at the rate of 16-18 percent."³⁷

2) The shareholding topic group of the State Restructuring Commission recommends that the "company pay income tax at the unified rate of 35 percent on its realized profit and distributes its after-tax profit in accordance with the following priorities: 1) Make loan

repayment as scheduled; 2) Put 5 to 10 percent into the accumulation fund; 3) Pay dividends on priority shares at a rate specified by the company charter (the dividends on the priority shares of the state as a legal person calculated accumulatively); 4) Contribute to the accumulation fund and public welfare fund; 5) Contribute to the worker reward fund and pay dividends to shareholders."³⁸

3) Yet others propose state share dividend contracting for distribution purposes. "Under so-called state share dividend contracting, we take the contract base figure as a base. Income tax is paid according to the new income tax rate. The amount of dividend the state is due as a shareholder is figured out using the new distribution method. The amount will then become the base in determining a specified ratio. The number of years during which sit will gradually increase will be the same as the number of years for the original contract."³⁹

B) The issue of share rights equality in the development of shareholding enterprises.

1) Some people expect the proportion of shares to change continuously. "Returns on state shares are plowed back into the enterprise. As a result, the capital stock of the state increases continuously and accounts for a growing portion of the capital of the enterprise. At the same time, individual worker shares account for a declining share of the enterprise's capital, affecting the incomes on individual shares."⁴⁰

2) Some people expect to see an inequality in share rights. In a majority of shareholding enterprises today, profits on state shares are either retained by the enterprise for its own use free of charge or used to pay off debts. Some enterprises go so far as not paying dividends on state shares temporarily, paying dividends only on shares held by units and individuals. Moreover, many enterprises set aside a portion of the dividends depending on the interest rates banks are paying on savings accounts before they pay taxes. In the distribution of dividends, it is a case of "ensuring stable yields despite drought or excessive rain," instead of not "setting a ceiling on dividends."⁴¹

C) About the internal mechanisms of shareholding enterprises

1) Some people believe that whoever exercises dominant property rights has different restraining effects on enterprises. "In an enterprise experimenting with shareholding where individual shares or unit shares account for a substantial portion of all shares, the manager often feels the restraining effects more keenly. When state shares make up an overwhelming majority of shares, however, the enterprise's self-restraining ability also weakens since the problem of the personification of the major holder of property rights in enterprises owned by the whole people has not been sorted out."⁴²

2) Some people believe that there are institutional problems within the shareholding enterprise. "First, there is

no clear separation of funds and powers between the board of directors and the factory manager. Second, similar confusion exists between the shareholders' meeting and workers' representative assembly. Third, the relations between the shareholding enterprise and administrative departments in charge are not clear. Fourth, there are no organic links between the leadership of the shareholding system and the contract system."⁴³

6. Fashioning Forms of Shareholding With Chinese Characteristics

A) Two-level shareholding system. The "two-level shareholding system is a legal-person enterprise system made up of a quasi stock market and a stock market. This legal-person enterprise system is characterized by four separations: between assets ownership, on the one hand, and assets administration, regulation, and control on the other; between the returns on state shares and control over shares; between share rights and legal person ownership; and between legal person ownership and management. The quasi stock market coexists with the stock market. They are related to each other in terms of substance but also differ from each other."⁴⁴

B) Debt shareholding system. "Set up an agency—state assets management committee—to manage state assets at the center all the way down to the local level. It shall be subordinate to the people's congress at the appropriate level. Its major responsibility is to supervise and manage the effective increase in value of state assets. The share controlling company manages the state assets in detail. The enterprise and the share controlling company enter into an economic and political relationship through a contract. The enterprise assumes full legal-person responsibility for the state ownership assets that it uses and pays them off with after-tax profits gradually year after year."⁴⁵

C) Self-governing shareholding system. "The philosophy behind the self-governing shareholding system is to separate the state shares internally. In other words, separate the return on state shares (the claim to dividends) from the right of ultimate disposal (buy, sell or transfer and the right to vote). Specifically, take stock of existing state assets. Then the State Assets Management Committee or a unit authorized by it will turn over the right to vote of state shares to workers through a bidding process, while the State Assets Management Committee only retains the claim to the profits of the state shares and the right of ultimate disposal."⁴⁶

D) Mock ownership shareholding system. "The mock ownership shareholding system was designed in such a way that both ownership and management are centralized in the hands of the enterprise and that state assets are not transferred without cost or are lost. The state obtains some benefits by virtue of its original ownership of state assets."⁴⁷

E) Cash pledge shareholding system. "1) In leasing an enterprise owned by the whole people, the contracting party is required to pay a cash pledge equal to half the

total assets of the enterprise in question. The shares may circulate or be transferred on the market. 2) The leasor pays rent to the lessor annually; 3) During the lease period, the leasor has full right to use enterprise assets to engage in production and expanded reproductive activities; 4) The board of directors is elected by the shareholders' meeting."⁴⁸

F) Dual shareholding management responsibility system. "Its basic characteristic is a mock 'enterprise share.' Moreover, the all-worker contract pledge fund is incorporated into share management to spread the risk at different levels. Specifically: 1) Turn enterprise assets into state shares and 'enterprise shares.' Attract workers to buy shares, provided that ownership by the whole people is unchanged. 2) The board of directors shall consist of various shareholders' representatives. Its function shall be to choose managers through bidding and to reward or punish them. 3) When it comes to the distribution of profits, state shares should enjoy priority. 4) 'Enterprise shares' and 'individual shares' serve as collateral to enable the operator to contract for state shares."⁴⁹

G) Dual-directional shareholding system. "The first direction: separate government administration from enterprise management. Establish a state assets management committee under the standing committee of the NPC to manage state assets. Second direction: the government discharges its functions of indirect macroeconomic management."⁵⁰

H) Labor accumulation shareholding system. "Labor accumulation includes three specific forms: 1) The public labor accumulation of all laborers in society; 2) the 'collective labor accumulation' by all workers in an enterprise; and 3) the 'individual labor accumulation' of each worker. As the value of enterprise assets increases, new property rights relations come into existence. The assets resulting from state investment using 'public labor accumulation' are known as 'state accumulation shares.' Assets resulting from investment by the enterprise collective using 'collective labor accumulation' are better known as 'collective labor accumulation shares' or 'collective accumulation shares.' The assets resulting from workers' 'indirect labor accumulation' are known as 'individual labor accumulation shares' or 'individual accumulation shares.'"⁵¹

I) Cooperative shareholding system. "The cooperative shareholding system requires every member who voluntarily joins a collective enterprise or cooperative enterprise to come up with funds to buy shares, at least one share per person. When there is a shortage of funds, there is no limit on the number of shares a person can buy."⁵²

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Difficulties of Large-, Medium-Size Enterprises

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[Article by Wang Yong (3769 0516): "Difficulties State-Owned Large- and Medium-Size Enterprises Face Today and Reasons"]

[Excerpt]

I.

Large- and medium-size state-owned enterprises are an important bulwark in the modernization of the country and a major source of fiscal revenues. Statistics show China as having 10,706 large- and medium-size state-owned enterprises in 1989. This was 0.13 percent of all industrial enterprises, but these enterprises had 63.9 percent of fixed assets, produced 35.2 percent of industrial output value, and realized 61.1 percent of all profits and taxes. During the 40 year period 1949-1989, large- and medium-size state-owned enterprises paid a cumulative 1,485,200,000,000 yuan in taxes and profits, or 83.6 percent of profits and taxes realized, thereby making a huge contribution to the country. As a result of more than a decade of reform and opening to the outside world, profound changes have taken place in both the administration and management systems, and in the operating mechanisms of large- and medium-size state-owned enterprises. The CPC Central Committee and the State Council have adopted a series of policy measures to expand enterprises' autonomy and increase enterprises' vigor. These have been effective in stirring the zeal of enterprises, particularly of large- and medium-size state-owned enterprises and their staff members and workers. They have promoted the development of production and raised the economic returns of enterprises, thereby playing an important role in realizing the country's national economic strategic goals, and in maintaining sustained and steady development of the national economy.

II.

With development of the economy and the steady deepening of reform, however, state-owned industrial enterprises, particularly large- and medium-size state-owned enterprises, show a lack of vigor and adaptability in meeting market competition and in making structural adjustments by comparison with the township and town, collective, and three kinds of partially or wholly foreign-owned enterprises that have sprung up in recent years. Certain problems implicit in the "high speed growth" of the economy have gradually been revealed under the

"retrenchment policy" of improving the economic environment and rectifying the economic order, a fairly grim situation looms, which is manifested primarily in the following: First is sustained negative growth of production. According to statistics from 79 key cities, ever since the last half of 1989 the production of state-owned enterprises (most of them large- and medium-size enterprises) has taken a rapid downturn, and 1990 saw sustained negative growth making it the lowest year for production increase in the Seventh Five-Year Plan. Since 1990, the gradual upturn in production nationwide came mostly from township and town enterprises and foreign-owned enterprises. During 1990, 40 percent of newly added industrial value came from township and town collective enterprises, 33 percent from three kinds of partially or wholly foreign-owned enterprises, and only 27 percent from state-owned enterprises. If one says that industry nationwide has begun to get out of a trough, then large- and medium-size state-owned enterprises are still in a trough. Second is a continued slide in enterprises' economic returns. In 1990, not only was there no halt in the trend toward losses among state-owned industrial enterprises nationwide, but they became worse. One-third of more than 194,000 state-owned industrial enterprises in 79 cities showed losses, their losses more than doubling over the previous year. The amount of losing enterprise losses were 30 percent greater than the total profits of profit-making enterprises, thus causing a tremendous decline in total profits, the decline amounting to 45.8 percent. In some enterprises today, liabilities are greater than assets, and losses have been so severe in some that they have halted or semi-halted production. Third is an enormous overall decline in economic return indicators. During 1990, the total cost of comparable products of industrial enterprises covered by the budget nationwide rose 6.5 percent; profit and tax payments declined 18.8 percent; and profits fell 56.7 percent. In key cities, the percentage of circulating funds not fixed by quota during the third quarter of 1990 increased 16.5 percent over the same period in 1989; the profit and tax rate on capital during the first to the third quarters fell 7 percent; per capita profits and taxes declined 21.3 percent; and enterprises' retained profits dropped 23.6 percent.

III.

Many reasons account for the current predicament of large- and medium-size state-owned enterprises. They include both the effects of some new incongruities that appeared during the past several years of improving the economic environment and rectifying the economic order, and the effect of some deep-seated incongruities that have accumulated for many years. The main problems restricting the vitality of large- and medium-size state-owned enterprises today, however, are in the following several regards.

First is an inconsistent reform policy. The contract management responsibility system, as well as the closely associated plant manager responsibility system, and the economic responsibility system in enterprises constitute

a closely integrated responsibility system. While adhering to the system of public ownership, reforms effectively solved the problems of a proper separation of ownership and operating rights within state-owned enterprises, and concurrent concern for the interests of the state, collectives, and individuals. Enterprises began to have a management system that could both stimulate and restrain. Even though the central authorities reiterated many times the need to continue this important policy, which has a bearing on the overall situation, in actual practice, it frequently became a topic for discussion from all sides, and later on no one had any idea about what to do. The resulting inconsistency in enterprises hurt the interest in production of both enterprises and staff members and workers.

Second the administrative autonomy of enterprises was difficult to implement. During the past 10 years of reform, a series of policies and measures to expand enterprises' autonomy and invigorate enterprises appeared in steady succession. Promulgation of the "Enterprise Law" brought the work of enterprises under jurisdiction of the legal system. It contained clear-cut provisions about enterprise autonomy. Nevertheless, in actual work, these regulations and policies were either difficult to implement or were retracted or thwarted by governments and units at all levels. The production plans, materials and product supply and marketing, capital, wages for labor, and technological transformation, and even the internal organization of state-owned enterprises labored under restrictions from all sides. Autonomy in administration could not thrive.

Third, large- and medium-size state-owned enterprises had heavy command-style tasks to perform, and policies regarding prices of products they had to produce were not fair. Large- and medium-size state-owned enterprises carried most of the burden for state command-style production plans. As a result of the state's "double tight" policies, demand for products of large- and medium-size state-owned enterprises that were used in investment was hard hit. Products such as steel, cement, machinery, and motor vehicles, for which there had formerly been a shortage, were now faced with slack demand and a severe accumulation in inventory, which forced enterprises to curtail or halt their production. This resulted in a slowing of growth in the metallurgy, nonferrous metals, chemical, and electro-mechanical product industries. At the same time, the state's strict control over prices of the products enterprises were required to make, plus its inability to supply the amounts of raw and processed materials needed to make them meant that large- and medium-size state-owned enterprises bought materials at high prices and sold products at low prices. The larger the number of command-style plans, the greater their losses. The coal and the petroleum industries are mainstays of the entire national economy, but in view of current price policies in which prices are seriously at variance with value, never mind building up greater reserve strength, the mines and the oil fields even find

simple reproduction difficult to maintain. This is one important reason for the slide in economic returns in recent years.

Fourth is the heavy tax burdens that large- and medium-size state-owned enterprises bear, and the numerous assessments to which they are subject. In recent years, large amounts of enterprises' economic returns have been transferred through taxation, fees, funds, interest payments, and various social assessments. A survey of 14 provinces and municipalities that the State Council Office conducted shows enterprises as making more than 44 payments for taxes and fees, into funds, and for bond purchases. A Chinese Industrial Economic Association sampling of 193 large- and medium-size enterprises in various industries in Beijing, Tianjin, and Shanghai shows 81.6 percent of their net earnings as having been paid to governments at various levels in the form of taxes, profits, and fees, or into funds or for bonds, 10.2 percent used to repay special-purpose loans, and only 8.2 percent actually retained as profits. These retained profits were before deductions from every quarter in the form of arbitrary assessments, arbitrary pooling of funds, arbitrary fee collections, and arbitrary fines. The ever heavier burdens that large- and medium-size state-owned enterprises bear, and the sharp decline in enterprises' retained profits have weakened their ability to readjust their own product mix.

Fifth is the serious aging of plant and technology in large- and medium-size state-owned enterprises that lack sufficient reserve strength for development. This shows up particularly seriously at old industrial bases and in traditional industries. In Liaoning Province, 604 of 941 large- and medium-size state-owned enterprises were built before the 1950's, but except for 38 that underwent a complete technological transformation, all the others remain at their original technological level. The condition of equipment in main industries such as metallurgy, electro-mechanical, petrochemical, and construction materials is largely in a state of "five generations housed together," only 7.2 percent of it meeting advanced international standards, and only 18.3 percent of it meeting advanced national standards. More than 60 percent of the country's electro-mechanical products are at the level of the 1960's. Of the country's 36.5 million cotton yarn spindles, 20 million are of 1950's vintage. More than 20 percent of the equipment in state-owned enterprises today has been in service for more than its rated life. One prominent problem hurting enterprises' technological progress and technological transformation is the shortage of funds. First of all, the amount of depreciation funds available for technological transformation is too small. One problem is that the depreciation rates for state-owned enterprises are too low, the overall industrial depreciation rate being 5.3 percent. After enterprises pay profits and taxes to the state, the actual depreciation rate is only 3.98 percent, meaning more than 20 years are required to replace equipment. A second problem is in the method used to calculate depreciation. No accounting system for figuring depreciation has been set up that takes account of inflation. It

has been estimated that the replacement price of fixed assets in state-owned enterprises in 1988 was approximately 1.6 times their original value. For old enterprises, this means that the price ratio is even larger. Second, the burdens of state-owned enterprises have been excessive in recent years; enterprises' profits have dropped tremendously; and investment capability is seriously inadequate. In 1989, enterprises' retained profits were 921 yuan per capita, 73 yuan less than in 1988. In 1990, they were approximately 30 percent lower than in 1989. Another matter is that fees for technological development in the nation's enterprises average only about 0.5 percent, so enterprises lack the ability to make technological advances and readjust the product mix themselves.

Sixth is the serious shortage of working capital in large- and medium-size state-owned enterprises, which makes for an ever heavier debt burden. In large- and medium-size state-owned enterprises, the problem of insufficient working capital for the development of production is becoming ever more serious. Statistics show a decline from 65.7 percent in 1978 to 25.6 percent in 1988 in working capital in the hands of state-owned industrial enterprises nationwide as a percentage of all working capital. At the same time, enterprises' indebtedness for working capital increased 4.17 fold in an annual average 17.8 percent increase. The result of the too low depreciation levels and development expenses in state-owned enterprises, and the insufficient working capital was as follows: On the one hand it led to enterprises' increasing dependence on bank credit for the development of production and for technological renovation and transformation, any changes in state monetary and banking policy having a fairly great impact on enterprises' production management. The tremendous recession in enterprises' production during the year immediately after tightening of the money supply in 1985 and again in 1988 testify to this point. On the other hand, with the steady rise in bank loan interest rates, enterprises' interest payment on loans increased sharply making the credit burden increasingly heavy. Statistics from Guangdong, Henan and Hunan provinces show that interest payments ate up approximately 80 percent of enterprises' profits. During the first half of 1990, interest rates state-owned industrial enterprises paid for their funds nationwide fell to 2.99 percent, which most enterprises found difficult to bear in comparison with the more than 10 percent interest rate that they had to pay for credit during the same period.

Seventh, differences in state policies for enterprises under different systems of ownership meant a lack of conditions for collective and for township and town enterprises to compete with other types of enterprises. In recent years, the overall dominant position of state-owned enterprises has declined. Collective, township and town, and other types of enterprises have been a new force coming to the fore, and production has developed rapidly. This is attributable largely to preferential government policies. Statistics for 1989 show successive tax

rates for collective, township and town, and other kinds of industrial enterprises on product sales of 5.3, 5, and 4.5 percent respectively; successive profit and tax payments as a percentage of profits of 29.3, 25.7, and 31.2 percent respectively; successive depreciation rates of 6.4, 6.8, and 6.4 percent respectively; and successive nominal enterprise retained profits as a percentage of profits and taxes of 19.2, 20.9, and 20 percent respectively. During the same period, the percentages for the same four categories in enterprises under ownership of the whole people were 9.3, 49.6, 4.3, and 17.4 percent respectively showing a strong contrast. This has been one of the main reasons during the past several years for the insufficient ability to develop enterprises under ownership of the whole people in comparison with enterprises under other systems of ownership.

Eighth, in some state-owned enterprises, management is poor; ideological and political work, and basic work in management is weak; the system of rules and regulations is not sound; labor discipline is lax; consumption of materials has risen; and product quality has declined. Statistics show a steady rate of decline in energy consumption by key enterprises to 46.7 percent for the first half of 1990 from 64.4 percent for the same period in the previous year, and a decline in the steady improvement rate for product quality from 73 to 66.7 percent. In some state-owned enterprises, cost accounting is inaccurate. Not only have book losses (open losses) greatly increased, but off-the-books shortfalls (hidden deficits) and losses have also reached serious proportions. In some enterprises, a resurgence of egalitarian "eating out of a large common pot" has occurred, which seriously stifles the interest in production of cadres, staff members, and workers alike.

[passage omitted]

Article Reviews CPC's Economic Reform

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[Article by He Jianzhang (0149 1696 4545) of Economic Research Institute Under Chinese Academy of Social Sciences, edited by Li Mu (4539 2606), written in May 1991: "CPC's Theory, Practice of Economic Reform"]

[Text] The CPC has now been established for 70 years. Over the last 70 years, our party has led the Chinese people in engaging in extremely arduous struggle. After 28 years, they overthrew the rule of feudalism, bureaucracy and imperialism, achieved a great victory in the new democratic revolution and established the PRC. Within seven years, land reform was completed, bureaucrat capital was confiscated, the imperialist enterprises in China were taken over, war wounds were healed, inflation was overcome, and the national economy was revived. After this, there was socialist transformation of individual agricultural operations, individual handicrafts operations and national capitalist industry and commerce, and thereby a socialist system was initially

established. In 1956, planned socialist economic construction was initiated. From that time until today, our party has, taking the basic Marxist principles of socialist economy as guidance and in the light of China's specific practice, strived to find a socialist road which accords with China's national conditions. During this exploration, there have been successful experiences and brilliant achievements as well as the lessons of defeat and serious mistakes. However, as in the years of revolutionary war, our party was not bowed by defeats and difficulties, but rather continually summed up experiences and lessons and bravely advanced toward the fixed goals, continuing to explore the path of socialist construction. Particularly since the Third Plenary Session of the 11th CPC Central Committee, through 10 years of reform and opening up, the people of our country have, under the party's leadership, molded an embryonic form of a socialist economic system with Chinese characteristics. In brief, although our country's socialist reform and opening up has experienced some bumpy patches, it has realized some earth-shaking achievements. In looking back at the road we have traveled over the last 70 years, we can be full of pride and enthusiasm, and in looking to the future, we can have great faith and confidence.

I.

Marx held that any social system is formed through a process of continual improvement and development in accordance with the development of the productive forces. This is determined by the patterns of movement of the basic contradictions in society. The productive forces are the most lively element and the relations of production must change in accordance with the development of the productive forces, and the superstructure must be readjusted following the changes in the economic base. These are general patterns applicable to all social forms. Capitalist society is also subject to these patterns. Marx and Engels said: "The bourgeoisie cannot exist without continually revolutionizing the instruments of production and thereby the relations of production and, with them, the entirety of social relations."¹ Everyone knows that, corresponding to the three technological revolutions and the raising of the degree of socialization of production, capitalism has gone through three major stages: The stage of free competition with individual capital as its base; the stage of private monopoly capitalism in which there is a high degree of accumulation and centralization of capital; and the stage of state monopoly capitalism characterized by state participation and involving a combination of state capital and private monopoly capital. These readjustments of the capitalist relations of production and the superstructure all play a definite role in promoting the development of the social productive forces and alleviating social contradictions. However, these readjustments are all only carried out within the scope allowed by the capitalist system and they cannot eliminate the major contradiction between the socialization of production and private appropriation by capitalists of the means of production. Through the readjustments, although capitalist society can for a certain time maintain relative

stability, in the end it cannot avoid economic crises and social upheaval. Thus, problems can only be resolved by eliminating the capitalist private ownership system and establishing a socialist system based on public ownership.

The basic contradiction in socialist society is still the contradiction between the productive forces and superstructure on the one hand and the economic base on the other. The only difference from the basic contradiction in the old society is that it has a different nature. The socialist relations of production and the superstructure must also see corresponding readjustment following the development of the productive forces and it is erroneous to see socialist society as firm and unchanging. Over 100 years ago, Engels pointed out: "I believe that so-called 'socialist society' is not something immutable and unchanging, but rather, like other social systems, as a society which is always undergoing change and reform."² It also needs to be pointed out that the socialist system is a social system completely new in history and it cannot be perfected immediately after its establishment. It must, following the development of practice, be readjusted and reformed in a timely way. This readjustment and reform is not a basic negation of the socialist system, but self-improvement and self-development by the socialist system.

In the same way, external economic, technical and cultural interflow is also a demand of scientific and technical advance and the development of the productive forces. Regular international contacts on a global scale are formed on the basis of the material and technological base of socialized large-scale production. The use of machinery and steam engines, the invention of steamers and railway engines, of telegraphs and telephones and of aeroplanes quickly developed communications, transport and the flow of information between continents, opened up world trade, formed an international division of labor, and resulted in the consumption of all countries and regions becoming international in nature. The local and national self-sufficiency and closed-door situations seen in the past was thus replaced by mutual connections and mutual reliance in various respects between the various nations. This was a great advance and played a major role in the socializing of the production of various countries and in developing their productive forces. However, under the capitalist system, world trade and international intercourse were subordinated to the goals of the bourgeoisie of seeking profits and plundering and enslaving the backward countries and nations. They were thus very limited in nature. Socialist countries, in order to accord with the needs of the socialization of production, in order to create more beneficial conditions for the development of the productive forces, in order to draw in the outstanding cultural and ideological achievements of all countries of the world, and in order to promote economic, technological and cultural development of the whole of mankind, need even more to develop foreign intercourse. As Engels said: "A society which shakes free from the restrictions of

capitalist production can see great advance in this respect.”³ In brief, the socialist system is not a closed system which is divorced from the major avenue of the development of world civilization. In its process of development, it must engage in opening up to the outside and continually draw in the outside cultural achievements realized by the whole of mankind, including capitalist society. Opening up to the outside is an innate demand of the socialist system’s self-improvement and self-development.

II.

Our country engaged in socialist construction in a situation where our economy and culture were backward, where there were threats from imperialism and where we were economically blockaded. Because our understanding of the patterns of the development of socialist society was insufficient, for quite a long period we saw socialist transformation and socialist construction as quite simple and easy. Thus, in social transformation and economic development, the requirements were too high and too urgent. The systems newly established were also far from perfect. Since the establishment of the PRC, our country has realized great achievements in economic and social development. However, there have been some very major setbacks. This produces the problem of how we are to appraise our country’s economic structure since the establishment of the PRC. Western countries feel that the implementation of reform and opening up in socialist countries is a recognition of the failure of socialism. A very small number of people in our country who engage in bourgeois liberalization echo these claims and hold that the basic way out is to implement capitalism. This is completely erroneous. We believe that the highly centralized economic and political structures of the early period of the PRC played an important role at that time in realizing the political and economic unity of the state, in centralizing forces to build a base for industrialization and in developing the national economy. Such structures cannot be completely negated in an unanalytical way. Since the establishment of the PRC, especially since reform and opening up, the speed of industrial and agricultural growth in our country has been in the front ranks of the world. Not only have we basically resolved the problem of feeding and clothing 1.1 billion people, but we have established an independent and quite complete industrial system. Comprehensive national strengths have been changed from weak to strong and there has been stable growth. Major quality of life indicators in our country showing health, level of nutrition, average lifespan, adult literacy rates and so on have already approached or exceeded the average levels for middle-income countries or even the world. The major economic and social achievements of New China have been observed by all and are recognized by all unbiased persons. A very small number of persons who adhere to a bourgeois liberal stand, on the basis of a few figures calculated in accordance with per capita GNP as issued by international organizations, have placed our country

below the 100th position in a list of countries of the world and have completely negated the achievements of our country’s socialist construction. This is extremely one-sided. The “Task Group on Social Development and Social Indicators” under the Sociological Research Institute of the Chinese Academy of Social Sciences, on the basis of coordinated economic and social development and in the light of our country’s situation, selected 16 indicators, including economic performance, social structure, population quality and quality of life, to measure 128 countries in the world. In this, the level of social development in our country in 1987 was in 70th place in the world, equivalent to the lower part of the middle-income countries. Of the indicators, those for economic performance and social structure stood in the lower world ranks, while population quality and quality of life indicators stood in the upper-middle ranks of the world.⁴ All of these aspects prove the superiority of the socialist system. Of course, we should also recognize that serious problems certainly existed in the old system and these obstructed the full bringing into play of the superiority of the socialist system. The major defects were: The ownership forms were almost unitary, power was excessively centralized, distribution was egalitarianist, the roles of the commodity economy and the law of value were ignored, on the political level party and government functions were not separated, government and enterprise functions were not separated, there was insufficient building of democracy and the legal system, and bureaucratism existed to a serious degree. Following the development of practice, these defects which affected the development of the productive forces and the bringing into play of the superiority of socialism became increasingly clearly revealed, and people thus increasingly came to recognize the necessity of reform, and recognize that the reform of the economic structure and the political structure was the only avenue for socialist modernization.

In our country, Comrade Mao Zedong was the earliest to discover the problems which existed in the old economic structure and put forward the task of reform. Back in 1956, in his speech “On the 10 Major Relationships,” he noted that the situation of excessive centralization of power had to be reformed. He said: “I am afraid it is not correct to centralize control of everything in the central authorities and in provinces and municipalities, without giving factories even a little power, a little leeway in dealing with matters or a few interests.” “There is also a contradiction in the relationship between the central authorities and the localities. In resolving this contradiction, at present we must stress a process whereby, under the precondition of consolidating the unified leadership by the center, we expand the power of the localities, give the localities more independence and let the localities do more things themselves. This will be quite beneficial in our building of a strong socialist state”⁵ In 1957, in the speech “On Correctly Handling Contradictions Among the People,” Comrade Mao Zedong also pointed out: “Our country’s socialist system has just been established

and is not yet completely built and completely consolidated." "In regard to the relationships of production and exchange between the various economic sectors, we must, in accordance with socialist principles, gradually seek and establish appropriate forms...In brief, socialist relations of production have already been established, and these are in accord with the development of the productive forces. However, they are far from perfect. This imperfect aspect is contradictory with the development of the productive forces. Apart from this situation of accord and contradiction between the relations of production and the development of the productive forces, there is a similar situation of accord and contradiction between the superstructure and the economic base."⁶

On the question of economic structural reform, other leading comrades of the party Central Committee also put forward many important ideas. In September 1956, at the Eighth Congress of the party, Comrade Chen Yun gave a speech entitled "The New Problems Subsequent to the Basic Completion of Socialist Modernization." In response to several problems in the process of transformation of the ownership of the means of production, given rise to by the fact that the steps were too big and that there was blind centralized production and centralized operations in industry and agriculture, he proposed specific countermeasures, and provided an incisive summation of the economic structure which our country should follow for quite a long period to come. He said: "The situation of the socialist economy will be as follows: In the industrial and commercial operations aspect, state operations and collective operations will form the main part, but in addition there will be a certain amount of individual operations. These individual operations will be a supplement to state and collective operations. As to production planning, the major part of industrial and agricultural products throughout the country will be produced in accordance with plans, but at the same time there will, within the scope allowed by the state plans, be free production of some products in accordance with changes in the market. Planned production will be the major aspect of industrial and agricultural production, while free production within the scope allowed by the state plans and in accordance with changes in the market will be a supplement to planned production. Thus, our country's market certainly will not be a capitalist free market, but rather will be a socialist unified market. In the socialist unified market, the state market will be the main part, but as a supplement there will be, within a certain scope, a free market under the guidance of the state. This free market, under state guidance, will be a supplement to the state market and thus it will be a component part of the socialist unified market."⁷ Although Comrade Chen Yun's idea in respect of the three "major components" and three "supplements" in our country's economic structure could not be realized in the past, it still formed part of the ideological riches of our party and, in later reform, it had major guiding significance. In addition, about 1962, when rectifying the errors of the Great Leap Forward

and the people's communes movement, Comrade Mao Zedong put forward the ideas that we must not expropriate the peasants, that must not skip stages, that we must oppose egalitarianism, and that we must stress the development of the commodity economy and respect the law of value; Comrade Liu Shaoqi put forward the idea that many of the means of production could be allowed to circulate as commodities; Comrade Deng Xiaoping put forward ideas about readjusting industrial enterprises, improving and strengthening enterprise management and implementing staff and worker congresses; Comrade Zhu De put forward the idea that it was necessary to stress the development of diverse handicrafts and agricultural operations; and Deng Zihui and other comrades put forward the idea that production responsibility systems should be implemented in agriculture.

In respect of opening up to the outside world, our party placed great stress on engaging in economic, technological and cultural exchanges. On the eve of the liberation of the whole country, Comrade Mao Zedong pointed out at the Second Plenary Session of the Seventh CPC Central Committee: "As to doing business with foreigners, there is nothing wrong with it. If there is business to be done, then it can be done. We have now started to do this and the businessmen of various capitalist countries are now competing for our business. We must, as far as we can, do our business with socialist states and people's democratic states. At the same time, we should also do business with capitalist states."⁸ However, in 1950, the Western imperialist states unleashed the war of aggression against Korea, and brought the flames of war to the doorstep of our country. They also blockaded the Taiwan Strait, declared that they were imposing an economic blockade against our country and vainly tried to strangle the newborn republic while it was still in its cradle. Even in such a situation, our party did not abandon its policy of opening up to the outside. In 1956, Comrade Mao Zedong, when talking about "the relationship between China and foreign countries," put forward the call to "study from foreign countries." He said: "Our policy is: We must study the strong points of all nations and all countries and must study all good things in the political, economic, scientific, technological, literary and art realms. However we must study these analytically and critically and not study them blindly. We cannot copy everything or just engage in mechanical transfer. Of course, we must not study their defects and shortcomings."⁹ He also warned us that in studying foreign things, there were things to adopt and things to reject, that we had to be extremely vigilant and guard against bourgeois decadent things, while drawing on those things which were in accord with science. He said: "We must firmly resist and criticize all corrupt systems and ideological styles of the foreign bourgeoisie. However, this does not prevent us from studying, from the advanced science, technology and enterprise management of capitalist countries, those aspects which are in accord with science.....Unanalytically rejecting all

foreign science, technology and culture is, like the previously-mentioned unanalytical adoption of all foreign things, not a Marxist attitude and not beneficial to our cause."¹⁰ From this we can see that it was not we who took the initiative to close the country and refuse to have dealings with foreign countries. Rather, it was the Western imperialist countries which isolated us and suffocated us. We, on the other hand, were trying to break down this situation. It was actually with the great efforts of Mao Zedong, Zhou Enlai, Deng Xiaoping and others of the older generation of revolutionaries that our country first developed wide nongovernmental exchanges with Western capitalist countries, which culminated in the early 1970's with the normalization of relations with the United States, Japan and other Western countries, and which paved the way for our country to develop international economic, technical and cultural exchanges. Of course, it should also be pointed out that as our country was, for a long period, forced to carry out socialist construction in an isolated environment, and because of the influence of the traditional, feudal small-scale farmer ideas on self-sufficiency, some comrades misunderstood or understood in a biased way the policy of independence, maintaining the initiative in our own hands and self-reliance, and thought we could engage in socialist construction under completely closed conditions. This was incorrect. Our country is a large socialist country with a huge population and, in engaging in socialist construction, we must adhere to a policy of independence, maintaining the initiative in our own hands and self-reliance. This is beyond question. However, in the situation today, where science and technology are constantly changing, and international economic contacts are daily increasing, no country can develop its own economy in a closed situation. Engaging in socialist modernization on a backward economic and technical base even more requires opening up to the outside, and it is necessary to reform all ideological methods and laws and systems which are not in accord with opening up to the outside. In this sense, opening up to the outside is also reform.

In summing up the above, we can say that our party became aware very early of the the problems which existed in the old economic system and the necessity of reform, and in 1958 and 1970, it engaged in two quite major reforms. However, overall, as the understanding of socialist economic laws at that time, especially the role of the commodity economy and the law of value, was insufficient, these reforms did not break through the fetters of the highly centralized old system and, in general, there was still reliance on administrative levels, administrative regions and administrative measures to manage the economy. The only question was whether the central authorities or the localities should manage more, and things were not really handled in accordance with economic laws. Administrative measures were still mainly used to manage the economy, and the enterprises or the staff and workers did not have operational or

management autonomy. In addition, rights, responsibilities and interests remained separated like before and thus the effects of the reforms were very limited.

The ones who truly pointed out the correct orientation and principles of our country's reform and opening up were the second generation central leadership group, with Comrade Deng Xiaoping as its center. On 13 December 1978, in the closing speech at the central work conference entitled "Liberate Thought, Seek Truth From Facts and Unite as One in Looking to the Future," Comrade Deng Xiaoping pointed out the task of carrying out reform of "relations of production and the superstructure which are not in accord with the swift development of the productive forces." To this end, it was necessary to oppose ideological ossification, liberate thought, initiate ideas and seek truth from facts. He incisively pointed out: "If we do not break down ideological ossification" "the four modernizations will have no hope" and "if we do not now again engage in reform, our cause of modernization and our socialist cause will be ruined."¹¹ Also, in this speech, Comrade Deng Xiaoping expounded on the questions of expanding the operational and management autonomy of enterprises, developing economic democracy, implementing responsibility systems which combined responsibilities, rights and interests, implementing material interests principles where one obtained more for putting in more work, overcoming the situation where no one took responsibility and egalitarianism existed concerning the question of gradually achieving common prosperity, and learning how to use economic methods to manage the economy. This speech by Comrade Deng Xiaoping actually became a theme report of the subsequently convened Third Plenary Session of the 11th CPC Central Committee, which was of such major historical significance, and became a general guiding idea in our country's economic structural reform and political structural reform. In 1981, the "Resolution on Several Questions in the History of the Party Since the Founding of the PRC," which was passed at the Sixth Plenary Session of the 11th CPC Central Committee, pointed out that: "Our country's socialist system is still in the initial stage" and put forward a basic framework for a socialist economic structure which was in accord with this. The "Resolution" pointed out: "The reform and perfection of the socialist relations of production must accord with the situation of the productive forces and be beneficial to the development of the productive forces. The state-ownership economy and collective economy are the basic economic forms in our country and individual economic operations are, within a certain scope, a necessary supplement to the public-ownership economy. It is necessary to implement specific management systems and distribution systems which are in accord with the various economic components. It is also necessary to implement, on the basis of public ownership, a planned economy and at the same time to bring into play the supplementary role of regulation through market mechanism."¹² In 1984, the "Decision of the CPC Central Committee on Economic Structural Reform"

passed by the Third Plenary Session of the 12th CPC Central Committee further pointed out that the socialist economy is a "planned commodity economy based on public ownership" and also stressed that strengthening the vigor of state-owned enterprises is a key link in economic structural reform. "Centered on this key link, we should stress the resolution of relationship problems in two respects. These two problems are: Establishing a relationship between the state and whole-people ownership enterprises, so as to expand the autonomy of enterprises; and establishing a correct relationship between the staff and workers and the enterprises, so as to guarantee the position of the laborers as the masters of the enterprise." On the question of the relationship between the state and the whole-people ownership enterprises, the "Decision" set down the principle of appropriately separating ownership rights and operating rights. The "Decision" noted: "A major cause of the state managing enterprises excessively and too tightly in the past is that state ownership was equated with direct operation of enterprises by state organs. According to Marxist theory and socialist practice, ownership rights and operating rights can be appropriately separated." Under the precondition of observing state plans and management, enterprises have the right to select flexible and diverse operational forms, have the right to arrange their own production, supply and sales activities, have the right to keep and control some of their own funds, have the right to make their own appointments, carry out dismissals, and select and employ personnel for their enterprise in accordance with regulations, have the right to set down employment measures and wage and bonus modes, have the right, within the scope allowed by the state, to set the prices of the products of their enterprise, and so on. In brief, they wanted enterprises to truly become relatively independent economic entities, to become socialist commodity producers and operators which take their own operational decisions and are solely responsible for their own profits and losses and which have the capacity for self-transformation and self-development, and to become corporate entities which have certain rights and obligations. As to the relationships between staff and workers and the enterprise, the "Decision" points out that "a situation should be achieved whereby the staff and workers are truly masters, where every laborer in his work post engages in work with the attitude of being master, where everyone concerns themselves with the operations of the enterprise, where everyone stresses the performance of the enterprise and where every person's work achievements are linked with his social prestige and material interests."¹³ As Comrade Deng Xiaoping's ideas on economic structural reform and the relevant decisions of the Central Committee have been implemented, today our country has initially established a basic model for a socialist economic structure with Chinese characteristics: In terms of the ownership structure, public ownership forms the main part, but diverse economic components coexist; in terms of operational modes, in the rural areas, the family output-linked contracted responsibility system forms the main part, while in the cities there are

diverse economic responsibility systems wherein contract management forms the main part, supplemented with concurrent experiments in leasing and shareholding systems; in terms of distribution systems, there are diverse distribution forms with distribution according to work forming the main part; in terms of economic operational mechanisms, there will be established a new structure which is in accord with planned commodity economy and an economic operational mechanism in which planned economy is combined with regulation through market mechanism.

Comrade Deng Xiaoping also firmly advocated opening up to the outside. He opposed both ossified ideas which obstructed reform and opening up, and bourgeois liberal ideological tides which, on the pretext of reform and opening up, wanted the complete adoption of capitalist systems. In 1979, he reaffirmed: "We must, in a planned and selective way, absorb from the capitalist countries the advanced technologies and other things which are beneficial to us. However, we certainly must not study or absorb the capitalist system and certainly must not study or absorb the various ugly and decadent things."¹⁴ Not long after the Third Plenary Session of the 12th CPC Central Committee, Comrade Deng Xiaoping, in response to the tide of bourgeois liberalization and the situation by which Western countries were using our country's policy of opening up to step up their conspiratorial activities of peaceful evolution, put forward, in a timely and clear-cut way, the need to uphold the four cardinal principles. Subsequently, he repeatedly put forward the task of struggle in opposing spiritual pollution and opposing bourgeois liberalization, and thereby guaranteed the socialist orientation of our country's reform and opening up.

III.

The four cardinal principles are the basis of the state, and reform and opening up to the outside are the avenues for strengthening the state. At the speech at the meeting to celebrate the 40th anniversary of the founding of the PRC, Comrade Jiang Zemin pointed out: "At present, the antagonism between the four cardinal principles and bourgeois liberalization can be said to be manifested in whether or not reform and opening up adheres to the four cardinal principles." On the question of economic structural reform, there exist two diametrically opposed viewpoints. These are manifested as: "Upholding public ownership as the main part or implementing privatization; upholding the combination of planned economy and regulation through market mechanism or implementing a completely market economy; upholding distribution according to work as the main aspect or advocating polarization; upholding opening to the outside world based on the principle of independence, maintaining the initiative and self-reliance, or advocating 'complete Westernization.' Our party has always adhered to socialist reform and opening up and firmly opposed bourgeois liberal 'reform and opening up.'"

First, at the same time as developing diverse economic components, we must adhere to the principle that socialist public ownership is the main part. Since the Third Plenary Session of the 11th CPC Central Committee, we have corrected the mistakes in the past whereby ideas were divorced from our country's situation and there was blind seeking of increased public ownership based on the belief that the greater the degree of public ownership the more pure the socialism. We have proceeded from the multilevel nature of the development of our country's productive forces, changed the situation where all the means of production were publicly owned, implemented a policy where public ownership is the main part but where diverse components are developed, and brought into play the individual economy, private operations and various types of foreign-funded operations which play a beneficial and essential supplementary role in the socialist public-ownership economy. Thereby, we have initially formed a situation where public ownership constitutes the main part, but where diverse economic components coexist. At present, the registered capital of individual and private operations is only equivalent to 2.3 percent of that of state and collective enterprises, and those employed in such operations constitute only four percent of the total social labor force. The proportion they constitute in the overall national economy is still very small and there is still a certain leeway for development. What in fact the appropriate proportion of nonsocialist economic components in the economy should be is something which will have to be determined in accordance with the level of the productive forces and actual needs. However, in no way must the primary position of socialist public ownership be harmed.

A very small number of persons who uphold a bourgeois liberal stand negate the primary position of public ownership and especially the state-owned economy, and advocate replacing the public ownership economy with the private ownership economy. Their main grounds of argument are that the economic performance of the publicly owned enterprises, and especially the state-owned enterprises, is low, and that "whole-people enterprises are not as efficient as collective enterprises and collective enterprises are not as efficient as private operations." We need to conduct a specific analysis of this. Socialist state-owned enterprises not only have an economic function, but also shoulder social functions, and the tasks of maintaining employment and basic services. We cannot use economic performance at a particular point in time to appraise their benefits or defects. Further, as the main source of state financial income, the tax burden of state-owned enterprises is great and they hand up much of their profits. Over the last few years, with the overheated economy, inflation and rising prices, the costs borne by state enterprises have increased greatly, while product prices and service charges have remained basically unchanged. This has inevitably given rise to a situation of profit decline or even losses. Meanwhile, the township and town enterprises and private operations are not subject to the

restriction of state planning and do not take on the tasks of state mandatory plans. They are completely subject to the market. If profits are great, they will engage greatly in the production of such products, if profits are small, they will only produce a few of such products, while if there is no profit, they will not produce the products at all. Thus, of course their profits are higher than state-owned enterprises. However, it must be recognized that they were developed through reliance on the basic services provided by the state-owned economy. Also, many have relied on the differentials between the dual pricing systems, and avoiding taxes or even evading taxes to obtain their great profits. If we placed the state enterprises on an equal competitive footing, there is no reason to believe that the state-owned enterprises, with their great funds, advanced equipment and large number of outstanding technicians and management personnel, would not surpass the collective and private enterprises.

In our country and abroad in recent years, the trend of "denationalization" has been very popular. In general, there have been the following types of schemes:

The first type is thorough privatization, whereby the assets of the state-owned enterprises are sold to private individuals as shares. The practice of Western countries has proven that only a small number of laboring people can purchase such shares of state-owned enterprises and the proportion they constitute among the shareholders is very small. A very small number of wealthy people, the monopoly capitalists, come to hold the majority of the shares and thereby they control more social capital and dominate the economic and social life of the entire society. The laboring people and the working class remain in the position of the exploited and oppressed. In a socialist country, when shares in a state-owned enterprise are sold, who are the people with the most money to buy them? First, there are the very few "speculating godfathers" and the households who have suddenly become rich. However, the funds of such people are still limited. Second, there are the foreign capitalists and governments. In this way, our socialist country will inevitably fall into being an appendage of foreign capital and the newly emergent bourgeoisie in the country will, because they have a weak position, inevitably attach themselves to foreign capital and will become comprador bourgeoisie. In this way, the laboring people will be subject to the dual exploitation and oppression of both domestic and foreign bourgeoisie. The laboring people cannot agree to such things. An article entitled "Slow Start to Privatization of East European State-Run Factories" which was carried in THE WASHINGTON POST of 12 February this year noted: "Eastern Europe has been undergoing dramatic change for over a year now, but in this region four out of every five enterprises are still controlled by the government. This is not because the governments of these countries are unwilling to sell these enterprises. Actually, whenever the politicians of these areas speak about privately run enterprises, they see them as a panacea to cure all their economic ills." However, the situation was not as wonderful as they envisaged. The article further noted:

"Poland, as the vanguard of reform, was the first to begin privatization. It passed the first all-encompassing laws and established the first ownership reform ministry. However, the leaders of this ministry conceded that these efforts by Poland had not achieved much effect. Lewandowski, second head of the Ownership Transformations Ministry, said: 'The results achieved up to now have been disappointing. Over the year, we have only sold five companies—only five of the 8,000 enterprises. At this rate, Poland will need 100 years to achieve privatization.' According to estimates by the government, Poland's \$80-billion-worth of assets must be privatized, but there is only \$10 billion of capital to purchase these assets." What is to be done? They plan on selling them to foreigners and are preparing to approve "an investment law which allows profits to be 'completely repatriated' to foreign investors." However, the article says: "The elected leaders cannot say to the voters that they want to submissively surrender assets to foreigners." It can be seen that the road of privatization is not that smooth.

There are others who proposed distributing enterprise assets equally among every member of society, and transforming state-owned enterprises into shareholding companies with individual shareholders. This method will result in people struggling to obtain shares in profit-making enterprises. Who will want shares in loss-making enterprises? Is this not artificially stirring up disputes and disturbance? Even if all the enterprises are profit-making, it does not mean that the egalitarian distribution method is fair and reasonable. Even if, at the beginning, everyone holds equal shares, share prices will fluctuate in accordance with the operational situation of the enterprise and other factors. At the same time, some people for various reasons will sell their shares and others will buy more, and so on. The speculative purchase and sale will inevitably produce polarization and a small number of people will become major shareholders and dividend-earners, while the majority of the people will sink into a situation where they have no assets. This path of "denationalization" is just a process of introducing capitalism.

Another scheme for "denationalization" is implementing group ownership or enterprise ownership. That is, state-owned assets will be assigned to various social groups, various types of foundations and various enterprises. Or else, these social groups and enterprises will purchase shares in state-owned enterprises through various fund-raising forms and thereby they will become group shareholders of the enterprise. It is said by some that because the various shareholders will be social groups and not individuals, it will not be privatization but "conversion to nongovernmental operation," which is in accord with the requirements of "social ownership" which Marx and Engels said would be implemented in socialist society. However, if things are done in this way, the various social groups will all compete to buy the shares of high-profit enterprises with good dividends. Also, the various enterprises, in order to satisfy the

demands of their own shareholders, will strive to produce commodities and services with high prices and good profits. Who will consider the overall interests of society, rational deployment between regions and industries and coordinated economic and social development? It can be imagined that if whole-people ownership (state ownership) is changed into group ownership or enterprise ownership, it will result in all the groups and enterprises in society being split into individual entities competing in pursuit of profit, and all the members of society will be split into various groups whose economic interests are mutually antagonistic, the long-term goals and common ideals of socialism will disappear from people's field of vision, the whole society will fall into an anarchic situation and overall social life will plunge into chaos. This is not a purely theoretical extrapolation, but has been proven by practice. The famous Chinese studies expert (Myron Gordon) [mai lun ge dong [6701 0243 2047 4098] of Toronto University in Canada has recently published an article entitled "Enterprise Management in a Socialist Economy." The article notes that when there is "worker autonomy," that is when there is enterprise ownership, "theoretical analysis and the reform experiences of Hungary both prove that if you let an independent workers committee control an enterprise, the actions of the enterprise will be: Complete distribution of profits—borrowing of credit to expand investment—further complete distribution of profits. That is, there will be: Consumption inflation—investment inflation—further consumption inflation."¹⁵ Given that this has happened before, why should we repeat the same mistakes?

Here, we need to differentiate collective ownership by the laboring masses from the above-mentioned group ownership and enterprise ownership. The former is one of the basic forms of socialist public ownership. It is collective ownership by the laborers of the unit, but not ownership by all the social groups in society. Further, it is conditioned by the state-ownership economy and the interests of the overall society. It does not exist and develop independently through negating the whole-people ownership system (state ownership). As to the claim that the above-mentioned group ownership and enterprise ownership accord with the requirements of Marx and Engels' "social ownership," this is even more groundless. The social ownership spoken of by Marx and Engels included collective ownership by the laboring masses, but primarily it referred to public ownership by the entire society, that is whole-people ownership or state ownership. Although they advocated that socialist public-ownership enterprises could adopt cooperative operation modes, they stressed that it was necessary to have adherence to ownership of the enterprise by the whole society, that is whole-people ownership or state ownership, as a precondition. In 1886, in a letter to A. Bebel, Engels said: "My proposal requires that we implement cooperatives in current production...When we make the transition to a completely communist economy, we must adopt large-scale cooperative production as the intermediate link. On this point, Marx and I

never had any doubts. But things must be handled so that the society (primarily referring to the state) maintains ownership rights over the means of production. In this way, the specific interests of the cooperatives will not stifle the overall interests of the entire society."¹⁶ From this we can see that it is completely erroneous to say that the "social ownership" advocated by Marx and Engels was various types of ownership by social groups or ownership by enterprises or that this is a basis for negating the state-ownership system and implementing "denationalization."

In brief, public ownership and particularly whole-people ownership or state ownership is the basis of the socialist system and we cannot allow any attempt to change this into private ownership, group ownership or enterprise ownership. Under the socialist system, the public ownership economy, especially the whole-people ownership system or state-ownership system, is a major prop of socialist modernization, a major source of state financial revenue and the material base by which the state regulates and controls the market. Only if a socialist state persists in maintaining public ownership as the main part will it be able to maintain the position of the laboring people as masters on both the economic and political levels. Only thus will there be unified social interests and great material strengths, will it be possible to coordinate the interests of the various classes and strata of society, to guarantee the coordinated, stable and sustained development of the economy and society, and finally achieve the goal of common prosperity for all members of society and guarantee a strong cohesion through the entire society. Upholding the socialist orientation of reform requires the upholding of the prime position of socialist public ownership and especially whole-people or state ownership. On this major question of right and wrong we cannot have the smallest doubt.

Second, we must uphold the combining of the planned economy and regulation through market mechanism and criticize efforts to weaken and completely negate the planned economy in order to implement a completely market economy. The prime position of socialist public ownership means that, on an overall level, society can consciously carry out planned and proportionate development of the national economy. This is essentially different from building a market economy which is based on private ownership and is subject to an anarchic production situation. The planned economy is a basic characteristic of a socialist economy. This is basic Marxist general knowledge. At the same time, as the commodity economy is a stage which the socialist economy cannot skip, socialist society must bring into play the superiorities of the planned economy and must also bring into play the roles of the law of value and regulation through market mechanism as determined by the commodity economy. The basic principle of the reform of our country's economic structure is the combining of a planned economy and regulation through market mechanism. The specific forms of combination, the use of various specific forms and the proportional

relationships to be adopted must be decided through accumulated experience and continuous efforts in exploration. The general trend is that the scope of mandatory planning will be greatly reduced, while the scope of guidance planning and regulation through market mechanism will be gradually expanded. In 1989, in industrial production, mandatory planning products only constituted 17 percent of the total, products subject to guidance planning constituted 40 percent and products subject to regulation through market mechanism constituted 43 percent. In agricultural product prices, the proportion of state-stipulated prices dropped from 92 percent in 1978 to 24 percent in 1989, while market prices grew from 8 percent to 56 percent. The other 20 percent of prices were guidance prices. In terms of the ex-factory prices of means of production, products with prices fixed by the state have dropped from 100 percent to 60 percent of the total. The prices for the other 40 percent are determined by the market. To sum up, at present, prices fixed by the state comprise about 30 percent of the total, guidance prices constitute about 25 percent, while market prices constitute about 45 percent. In future, state plans will be mainly manifested as macroeconomic regulation and control, including the formulation of long-term development plans, industrial policies and financial, credit and monetary policies. There should be a macroeconomic regulatory and control system established in which indirect regulation and control is combined with direct regulation and control, but in which indirect regulation and control is the main part, and in which regulation and control at the two levels of central authorities and provincial, autonomous regional and directly administered municipal authorities is combined, but in which regulation and control by the central authorities is the main part. In terms of microeconomic activities, we should free them and enliven them as much as possible and bring the role of regulation through market mechanism into greater play.

The people who uphold a stand of bourgeois liberalization, at the same time as advocating the implementation of privatization, also advocate the implementation of a completely market economy. When their advocacy is rejected and criticized, they try to defend themselves by saying that they advocated the implementation of "a macroeconomically controlled market economy," not a completely market economy. It must be pointed out that it is these people who have put all their efforts into trying to weaken and even completely negate the planned economy, and attack the planned economy as a product of the natural economy and not compatible with a commodity economy. They say that a planned economy is a "ruled economy" or "a command economy," and that it is intolerable. Let us ask, if a market economy which negates public ownership and does not accept planned guidance or regulation is not a completely market economy, what is it? It needs to be understood that modern Western capitalist states have to engage in various types of state intervention in their economies and engage in various sorts of "state plans," and they refer to their market economies as "market economies

subject to government regulation." At the same time, they freely confess that their economies are market economies basically opposite to the socialist planned economy. We can see that a "market economy subject to macroeconomic regulation and control" and a "market economy which can be regulated and controlled," as advocated by a very small number of people in our country, is nothing new, but just a copying of the Western market economy model.

Third, at the same time as implementing diverse distribution forms, we should adhere to distribution according to work as the main form so as to guard against and correct unfairness in social distribution. Corresponding to the development of diverse economic components and diverse operational forms, in the distribution sphere there have appeared diverse forms of distribution. Publicly owned economic units have, through reforms, appropriately widened differentials in internal income distribution. However, egalitarianism has not yet been overcome. Also, concurrently in society there has appeared the phenomenon of income differentials widening. This has mainly been manifested in the incomes of private-operation enterprise heads and individual operators being too high. Since the beginning of the reforms, the income of the staff and workers of the vast majority of publicly owned units has seen a great increase. However, it has been lower than the income growth of individual operators. In particular, when they compare themselves with heads of private-operation enterprises and some individual operators who have accumulated great amounts of wealth in a few short years, they are pained by feelings of deprivation. Social wealth is created by the people, and if social distribution is not fair, it will harm the enthusiasm of the broad masses of staff and workers, cadres, and intellectuals, affect the stability of the ranks of staff and workers and shake the primary position of socialist public ownership. This is not only an economic problem, but also a social and political problem, and we must give great attention to it and adopt economic, administrative and legal measures to seriously resolve it. Legitimate income should be protected, while excessively high income should be regulated through taxation and illegal income should be firmly suppressed.

A very small number of people in our country are putting great efforts into attacking the principle of distribution according to work. They claim that distribution according to work is the "fantasy part" of Marxism and note that "it is more appropriate to see distribution according to funds as 'glad tidings' rather than as a 'scourge.'" In this way, they brazenly advocate traveling the capitalist road of polarization.

Fourth, we must uphold opening up to the outside world on the basis of independence, maintaining the initiative and self-reliance, and oppose opening to the outside which involves "complete Westernization." Opening to the outside is a basic national principle of our country. Adherence to opening up to the outside and adherence to the principle of independence, maintaining the initiative

in our own hands and self-reliance form a unity. Our aim in expanding economic and cultural interflow is strengthening our capacity for self-reliance, promoting the economic development of the country, increasing our position and competitiveness in the world economy and accelerating the pace of our country's modernization. A very small number of people who adhere to the stand of bourgeois liberalization advocate not only drawing in advanced Western science, technology and management methods, but also drawing in Western political and economic systems and ideologies. The modern history of China has shown that "complete Westernization" has already been put forward and experimented with, but all it brought were internal chaos and the tangled warfare of the warlords. The result of "complete Westernization" in the Kuomintang period was the formation of the three great mountains which weighed on the heads of the Chinese people. In upholding the socialist orientation of reform and opening up, we must thoroughly criticize the "complete Westernization" fallacy which opposes the four cardinal principles.

Reform and opening up are the necessary road by which the socialist system improves itself and develops itself. This is the conclusion which we have drawn through summing up the experiences and lessons of socialist construction in various countries. Regardless of how the international scene changes, our country will not change its policy of reform and opening up. At the same time, we must be extremely vigilant against domestic and foreign hostile forces using the pretext of reform and opening up to restore capitalism. We must clearly distinguish these two diametrically opposed ideas of reform and opening up, firmly stand up to all pressure, reject all interference, uphold the socialist orientation of reform and opening up, ensure that the red flag of socialism long flutters high over the vast territory of our country, and make an even greater contribution to the international communist movement and to the progress of all mankind.

Footnotes

1. Marx and Engels: "Manifesto of the Communist Party," *Selected Works of Marx and Engels*, Vol 1, People's Publishing House, 1972 edition p 254).
2. Engels: "Letter to Otto (Berniker) [bo ni ke 0130 1441 0344] 21 Aug 1890," in *Collected Works of Marx and Engels*, Vol 37, p 443.
3. Engels, "Anti-Duhring" in *Selected Works of Marx and Engels*, Vol 3, p 335.
4. See Zhu Qingfang and Yang Zhaorong, "An International Comparison of the Levels of Economic and Social Development of Our Country" in JINGJI YANJIU 1991 No. 5.
5. *Selected Works of Mao Zedong*, Vol 5, People's Publishing House, 1977 edition (same below) pp 273, 275.
6. Ibid p 374.

7. *Selected Works of Chen Yun 1956-1985*, People's Publishing House, 1986, p 13.

8. Mao Zedong: "Report to the Second Plenary Session of the Seventh CPC Central Committee" in *Selected Works of Mao Zedong*, Vol 4, People's Publishing House, 1960 edition, p 1,436.

9. Mao Zedong: "On the 10 Major Relationships" in *Selected Works of Mao Zedong*, Vol. 5 p 285.

10. Ibid, p 287.

11. *Selected Works of Deng Xiaoping (1975- 1982)*, People's Publishing House, 1983 edition (same below), pp 131, 133, 140).

12. *Selected Major Documents Since the Third Plenary Session*, (last volume), People's Publishing House 1982 edition, pp 784, 786).

13. RENMIN RIBAO 21 October 1984.

14. Deng Xiaoping: "Uphold the Four Cardinal Principles" in *Selected Works of Deng Xiaoping (1975-1982)*, p 154.

15. JINGJI CANKAO BAO of 9 April 1991.

16. *Collected Works of Marx and Engels*, Vol 36 pp 416-417.

Socialist Economic Construction Discussed

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No 6, 20 Jun 91 pp 18-26, 77

[Article by Mao Tianqi (0379 1131 0796) of the Economic Institute of the Academy of Social Sciences: "On CPC's Major Guiding Thoughts on Socialist Economic Construction"—revised in May 1991; edited by Lu Yang (6424 7122)]

[Text] Under the leadership of the CPC, Chinese people of all nationalities comprehensively embarked on large-scale, socialist economic construction in an all-round way after the basic completion of socialist transformation with respect to the means of production. China has been carrying out socialist economic construction for 35 years since September 1956, when the Eighth National Party Congress was held. In subsequent years, we have traversed a road full of twists and turns. We have achieved smooth successes and accumulated valuable experience, but at the same time we have also paid dearly as we groped along the bumpy road of advance. All these years, our party has persistently combined the universal truth of Marxism with China's actual conditions. Through experience and lessons, we have familiarized ourselves with the conditions of our country and learned the objective laws of the economy. This has enabled us to achieve great successes in economic construction. To begin with, social production registered substantial growth. The gross value of industrial production, calculated in comparable prices, increased from 64.2 billion

yuan in 1956 to 2.20 trillion yuan in 1989, averaging 10.8 percent per annum. By 1990, it increased to 2,38 trillion yuan, 7.6 percent up on 1989. The gross value of agricultural production, calculated in comparable prices, increased from 61 billion yuan in 1956 to 653.5 billion yuan in 1989, averaging 35 percent per annum. By 1990, it soared to 738.2 billion yuan, 6.9 percent up from 1989. National income, calculated in comparable prices, increased from 88.2 billion yuan in 1956 to 1.31 trillion yuan in 1989, averaging 6.4 percent per annum. By 1990, it increased to 1.43 trillion yuan, 4.8 percent up from 1989. People's living standards have also seen steady improvement. In 1957, the consumption level of residents across the country was 102 yuan. It increased at an average rate of 3.4 percent per annum to 700 yuan by 1989. The 1980s were a decade which saw the people gaining the most tangible benefits. Between 1980 and 1989, the level of consumption rose by 6.9 percent a year, with per capita savings deposits soaring from 5.4 yuan to 463 yuan. By 1990, it increased to 615 yuan. Meanwhile, new progress has also been made in such fields as science, technology, education, culture, sports, and public health.

The aim of China's economic construction is to realize socialist modernization. When China first embarked on socialist economic construction in 1956, it was still an agricultural country, with gross industrial output value almost on a par with that of agriculture. One can well imagine how difficult it was for us to carry out modernization in a country with a weak national economy, a country which used to be a semi-colonial and semi-feudal society. We managed, however, to overcome the difficulties and achieved successes. As Comrade Jiang Zemin pointed out at the meeting marking the 40th anniversary of the founding of the PRC: "Our economic development and the improvement of our people's living standards are not only extremely remarkable compared with China of yesterday, but are by no means behind those in many countries." The "1990 Report on the Development of Mankind," published by the United Nations Development Program, used a new method of computation to reassess the per capita GNP, life expectancy at birth and adult literacy rate of 130 countries. In the report, China ranked 65th, half way on the list.¹ This shows that the speed and effects of China's socialist economic construction have greatly narrowed the gap between China and the developed countries.

The CPC, as the leader leading the people of our various nationalities in socialist economic construction, has gradually established a number of clear and definite guiding thoughts on socialist economic construction through successes made in times of smooth progress and through twists and turns as it groped along.

I. Take Economic Construction as the Central Task, Energetically Develop the Forces of Production in Society, and Gradually Improve the People's Material and Cultural Life on This Basis

In an underdeveloped country with a predominant agricultural sector, efforts should be made to shift the focus

of work as soon as the proletariat has seized power and gradually completed the socialist transformation of the ownership of the means of production. It should take economic construction as the central task, devote major efforts to developing the forces of production in society, and create a labor productivity higher than under capitalism so as to enable the socialist system to ultimately establish a firm foothold. In September 1956, after the socialist transformation of the ownership of the means of production was completed in the main, the party immediately convened its Eighth National Congress. This was a great milestone marking the full-fledged commencement of socialist economic construction. The "Resolution" of the Eighth National Party Congress pointed out: As of now, the contradictions between the proletariat and the bourgeoisie have basically been resolved in our country. Henceforth, the main contradiction at home will be the contradiction between the people's desire to establish an advanced industrial country and the reality of a backward agricultural country. Although there will still be class struggle, the primary task for the party and the people will be to concentrate all energy in order to resolve this new principal contradiction, develop the forces of production in society at great speed, and turn our backward agricultural country into an advanced industrial one. Comrade Mao Zedong even asked at the preparatory meeting of the Congress: How do you think we will end up if our forces of production remained low in another scores of years? We will be wiped out from this earth. After the Congress, Comrade Mao Zedong again reminded the whole party in his book "On the Correct Handling of Contradictions Among the People": Since "our fundamental task has been changed from liberating the forces of production to protecting and developing these forces under new relations of production," we must strive to "turn our country into a socialist country with modernized industry, agriculture, science, and culture." Due to certain new changes in the international communist movement, however, in the 22 years from the turning point when anti-rightist struggle broke out in 1957 to the end of the Cultural Revolution, the implementation of the idea of "taking economic construction as the central task" was time and again obstructed by the erroneous guiding thought of "taking class struggle as the key link." In September 1962, Comrade Mao Zedong even broadened and treated in terms of absolutes class struggle which existed within a given scope. He asserted at the 10th Plenary Session of the Eighth CPC Central Committee that throughout the historical period of socialism, the bourgeoisie would continue to exist and attempt to stage a comeback. He regarded the internal need to cope with the spontaneous forces of capitalism and the external pressure to succumb to imperialism and revisionism as the primary hazards within the party, maintaining that the contradiction between the proletariat and the bourgeoisie remained the principal contradiction in Chinese society. Under this guiding thought, "taking class struggle as the key link" became a fashionable slogan, and political movements continued unabated. During the Cultural Revolution, people were told to oppose the "theory that productive

forces decide everything," an absurd notion which fundamentally goes against historical materialism. Whoever paid attention to economic construction was branded as an advocate of the "theory that productive forces decide everything." Nonsensical remarks like "it is all right to let production decline as long as the revolution succeeds" and "it does not matter if the 800 million people have to suffer a little" filled the pages of newspapers and magazines.

Why was it so difficult for our party to shift its work focus to economic construction? First, our party, which had gone through a long period of war and acute class struggle, was not fully prepared ideologically or theoretically for large-scale and all-round socialist construction. It lacked the necessary scientific research, and did not have a contingent of cadres with the necessary economic management know-how. Thus, when new contradictions and new problems cropped up in its handling and observation of socialist economic development, it habitually regarded as class struggle problems that no longer belonged to this category, and used the method of class struggle to analyze and tackle economic problems that emerged in the course of economic development. It went so far as to apply the method of class struggle to differentiate between different views on how to tackle economic problems. This led to the broadening of class struggle. The Lushan Meeting which met in July 1957 was a typical case in point. The meeting originally planned to tackle the mistakes of "excessively high targets" during the Great Leap Forward and of attempting to effect "the transition in poverty to a higher stage" in the people's commune movement. Comrade Mao Zedong even put forward 19 specific economic questions, including the management system, rural policies and communal dining halls, for discussion at the meeting. On 13 July, Comrade Peng Dehuai wrote a letter to Comrade Mao Zedong based on the experience and lessons summed up at the meeting, criticizing the mistake of thinking that "putting politics in command has overriding importance" and put forward his own views on grain and steel production, capital construction and other specific economic issues. Two days after receiving this letter, Comrade Mao Zedong unleashed the criticism of Comrade Peng Dehuai, saying that Peng's views showed the "bourgeois proneness to waver." He asserted: "This struggle which erupted at Lushan is a struggle, a class struggle." An "anti-rightist" struggle was thus launched within the whole party. Second, some of the tentative plans and arguments put forward by authors of Marxist classics were treated as dogmas. For instance, Marx's idea of "bourgeois rights" was distorted. It was argued that the principle of exchange of equal amounts of labor in the distribution of personal consumer goods should be restricted and criticized. Distribution according to work and the principle of material benefits were even regarded as "not much different from the old society." Some of Lenin's expositions on small production during the period of wartime communism were also distorted. For instance, it was argued that Lenin, in maintaining that after the basic

completion of socialist transformation, small production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a large scale, was in fact equating small production with the spontaneous forces of capitalism. Third, economic research was seriously lagging behind. For some time, metaphysics and idealism were on the rampage. People engaged in political phrase-mongering and ignored economic issues. When new problems were encountered in practice, they were not allowed to, and indeed dared not, think things out for themselves. They pruned new experiences according to the "rules and regulations" detailed in the "books." As a result, socialist economics remained for a long time on the level of "compilation of the party's economic policies."² It was "policy economics" at best.³ Once policies changed, economics had to be revised to keep in tune with these changes. What merits attention is that a historical dialectical view was also noticeably absent in the policy toward intellectuals. The vast numbers of intellectuals brought up by the party after the founding of the PRC were not regarded as part of the working class. It was held that because their mode of labor was too individualistic, they were incapable of consciously forming a scientific world outlook. Thus, under the slogan of "taking class struggle as the key link," intellectuals as a whole were often treated unfairly. This affected the development of science and technology. In the 22 years between 1957 and 1979, the party had not shifted the focus of its work to economic construction. As a result of relying on political movements and class struggle to carry out economic construction, the economy was always in a turbulent state and the problem of feeding the population remained unresolved for a long time.

Taking economic construction as the central task is determined by changes in the principal contradiction in society after the basic completion of the socialist transformation of the ownership of the means of production. These changes made it imperative for the party to attach primary importance to fulfilling the growing material and cultural wants of the working people. At the Third Plenary Session of the 11th CPC Central Committee in December 1978, the party systematically summed up the experience and lessons of socialist economic construction and made the strategic policy decision to shift the focus of the party's and the country's work to socialist modernization. In his efforts to effect this shift, Comrade Deng Xiaoping made outstanding historical contributions by combining theory and practice. In two important speeches, one entitled "Emancipate the Mind, Seek Truth From Facts and Unite as One in Looking to the Future," delivered at the Central Working Conference which made preparations for the Third Plenary Session, and the other entitled "Uphold the Four Cardinal Principles," delivered at a forum on the principles for the party's theoretical work held shortly after the Third Plenary Session, he systematically rectified various erroneous theories on class struggle in the socialist society. Linking his understanding of the principal contradictions in society with the resolutions adopted by the

party's Eighth National Congress, he pointed out: "The level of development of our forces of production is still very low and still falls far short of the needs of the people and the state. This is the principal contradiction at the present stage, and the resolution of this principal contradiction is our central task."⁴ In order to resolve this principal contradiction, Comrade Deng Xiaoping put forward a series of economic policies and reform measures suited to China's national conditions. Included were systems and methods of management. In January 1980, Comrade Deng Xiaoping further pointed out at a meeting of cadres called by the Central Committee: "We must take economic construction as our central task. If we depart from this central task, we will be in danger of losing our material foundation. All other tasks must be subordinated to this central task and evolve around this central task. They must not interfere with this task, or adversely affect it."⁵ The "Resolution on Certain Questions in the History of Our Party Since the Founding of the PRC" adopted at the Sixth Plenary Session of the 11th CPC Central Committee in June 1981, the New Party Constitution adopted by the Twelfth National Party Congress [NPC] and the New PRC Constitution passed by the Fifth Session of the Fifth NPC in December 1982 all enshrined the basic thought of taking economic construction as the central task.

II. Adhere to the Policy of Reform and Opening the Country to the Outside World, Readjust the Contradictions between the Relations of Production and the Forces of Production, and between the Superstructure and the Economic Base, and Continuously Improve and Develop the Socialist System

The contradiction between the relations of production and the forces of production, between the superstructure and the economic base, is a basic contradiction in all social systems. "In a socialist society, the basic contradiction remains that between the relations of production and the forces of production, between the superstructure and the economic base."⁶ The correct resolution of this basic contradiction is the basic driving force that pushes forward the development of the socialist society. For a fairly long period, however, we did not quite understand what socialism was about. "Certain rigid concepts about socialism developed over the years that were not in keeping with the actual conditions in China."⁷

Take the socialist relations of production, for instance. On the question of ownership, our policies were divorced from the level of development of the forces of production and from various links of social reproduction. We blindly worshipped administrative power, and oversimplistically judged public ownership by whether the ownership of production factors was "pure," "large-scale" and "centralized." "Purity" was a means of "chopping off tails of capitalism." It rejected the existence of nonpublic economic sectors and denied the beneficial and supplementary role played by individual and private economies in the socialist public ownership system. "Large-scale" was achieved through "transition in poverty to a higher stage." It rejected all economic sectors

outside the state sector, used "amalgamation" and "upgrading" as the means, and indiscriminately transferred the property of the collective economy, thinking that the larger the scale of public ownership the better. The idea of "centralization" was that the state-owned economy was the only form for the realization of public ownership. Everything must be placed under centralized control. Economic plans must be handed down by the state; production funds must be subject to centralized allocation; the purchase and marketing of products must be subject to centralized control; returns on assets must be subject to centralized distribution; and labor and wages must be subject to centralized management. The highly centralized management system established on the basis of "purity," "large-scale" and "centralization" seriously fettered the enthusiasm of enterprises in production and operation. On the question of the distribution of income, the fact that the principle of material interests was abandoned made it impossible to correctly implement the principle of distribution according to work. The egalitarian principle of distribution seriously dampened the enthusiasm of laborers. In economic operation, planning and the market were treated as opposites. Planning was regarded as an attribute of the socialist system, while the market was regarded as an attribute of the capitalist system. We refused to find out the internal mechanism for combining the two, and criticized as capitalistic correct measures such as invigorating enterprises through the market and developing the socialist commodity economy. Take the socialist superstructure, for another instance. Our basic political system is fine. There is no doubt about this. There are still major drawbacks, however, in our actual leadership structure, organizational form and methods of work. Since economic and cultural conditions necessary for developing a high degree of socialist democratic politics are still inadequate, problems such as the over-concentration of power, serious bureaucratism and feudal influences are still present. In particular, a small number of officials have become estranged from the masses. They have abused their power and become corrupted, thereby undermining the party's prestige and image among the masses. Contradictions like these have adversely affected the carrying forward of the superiority of the socialist system and the development of the forces of production in society. It is thus necessary to readjust, through reform, those areas in the relations of production and the superstructure that are not suited to the development of the forces of production, in order to continuously improve and develop the socialist system.

If we ascribe the longstanding contradictions detailed above to the over-centralization of power, then we may say that "reform" aimed at righting these ills had already begun in the mid-1950's. In 1956, Comrade Mao Zedong pointed out in his speech entitled "On the Ten Major Relationships": "It is not right, I am afraid, to place everything in the hands of the central or the provincial and municipal authorities without leaving the factories any power of their own, any room for independent action, any benefits." "The relationship between the

central and the local authorities constitutes another contradiction. To resolve this contradiction, our attention should now be focused on how to enlarge the powers of the local authorities to some extent, give them greater independence and let them do more, all on the premise that the unified leadership of the central authorities is to be strengthened. This will be advantageous to our task of building a powerful socialist country."⁸ In the book *On the Correct Handling of Contradictions Among the People*, published subsequent to this, he also pointed out: As the socialist system has just been established and is still imperfect, efforts must be made to find a more appropriate form in practice. Around that time, Comrade Sun Yefang, an economist, also criticized the drawbacks of the over-centralization of power, and put forward a series of policy proposals on reforming the traditional system according to the general idea of basing plans and statistics on the law of value. Because this system had indeed produced some positive results in economic development in the early years of the PRC, however, people were not quite clear about the seriousness of its drawbacks. "Reform" of the old system, according to the principle of decentralization, which began in the mid-1950's, was no more than a few patchings up within the confines of the existing system. Since the party had for many years focussed its energy on taking class struggle as the key link, these patch-up measures were also reversed under the slogan of "criticizing revisionism and fighting capitalism." Thus, certain drawbacks of the old system were "legally" preserved.

Actually, the over-centralization of power which characterized the old system was but a superficial phenomenon. The deep-rooted problem lies in the fact that in all these years we have not tried to clearly ascertain our national conditions and have not acquired a correct understanding of socialism. As Comrade Deng Xiaoping pointed out: "What is socialism and what is Marxism? We were not quite clear about this before."⁹ Comrades of the economic and theoretical circles often confused socialism with the natural economy, and equated the commodity economy with capitalism. Following the shift in work focus after the Third Plenary Session of the 11th CPC Central Committee, people began to understand more about the drawbacks of the old system and became more clear about the approach to reform: In order to overcome the problem of the over-centralization of power, we must not only divide administrative power between the central and local authorities, but must make a breakthrough in reform by correctly handling the economic relations between the state and individual production units. From the Third Plenary Session of the 11th CPC Central Committee in December 1978 to the Third Plenary Session of the 12th CPC Central Committee in October 1984, the focus of work was on the all-around implementation of the system of contracted household responsibility with remuneration linked to output in the rural areas. This gave peasants the right to make their own decisions in matters of production and operation. As commodity-money relations developed

between the urban and rural areas, peasants became more conscious of the role of the market. This quickened the transition of the rural areas from a substantially self-sufficient economy to a commodity economy. From the Third Plenary Session of the 12th CPC Central Committee in October 1984 to the convocation of the 13th National Party Congress in October 1987, the reform of the urban economic system was in full swing. The whole party soberly saw that socialism remains a planned commodity economy based on public ownership, and that the full development of the commodity economy is an insuperable stage of socio-economic development. Based on this theory, we took the invigoration of enterprises as our central task, regarded the reform of the pricing system as the key to the success of the entire economic restructuring, and carried out varying degrees of reform in all links of social production, such as revenue and taxation, finance and banking, labor and wages, planning, material supplies and foreign trade, ranging from the microeconomic mechanism to macroeconomic control, according to the operating mechanism which combines the planned economy with market regulation and according to the target model for the new system of socialist planned commodity economy. The 13th National Party Congress was a milestone in urban and rural reform, and marked a switch to market-oriented reform. With Comrade Deng Xiaoping's basic theory of building socialism with Chinese characteristics—that is, scientific socialism of contemporary China—as the guiding thought, the party proceeded from the conditions in China and recognized the fact that China was still in the primary stage of socialism. Meanwhile, based on the theory of socialist planned commodity economy, it also gradually formed its basic conception for a new system of socialist commodity economy. On the level of ownership, it advocated taking public ownership as the main body and the state-owned economy as the leading factor, and encouraged the development of diverse economic sectors. In the 1989 gross value of industrial production, the whole-population sector accounted for 56.06 percent; the collective sector, 35.69 percent; the urban and rural self-employed, 4.8 percent; other economic sectors, 3.44 percent. In the total volume of retail sales, the whole-population sector accounted for 39.1 percent; collective and joint operations, 33.65 percent; individual traders, 18.63 percent; rural fairs, 8.6 percent. In this new pattern of ownership structure, the absolute monopoly once held by the state-owned economy was changed in favor of a position of relative superiority. This was highly conducive to the development of the commodity economy in the urban and rural areas. On the level of income distribution, diverse forms of distribution was practiced, with distribution according to work forming the mainstay. Certain types of business revenue and unearned income were also included in the distribution. The pattern of income distribution thus underwent a profound change in society as a whole. Personal income no longer had wages as its only source, and work points began to be replaced by diversified sources of income. The ratio between the wage income and unearned

income of employees across the country was 7:3. The change in the mechanism of distribution from the unitary system of government distribution through administrative means to a mechanism which combines market distribution with macroeconomic regulation and control by the government was conducive to the realization of social justice under the premise of improved efficiency. On the level of the regulatory mechanism, the regulatory functions of pricing, interest rate, economic, fiscal, taxation and other levers of the commodity economy were gradually being strengthened. The system of macroeconomic regulation and control was also changed from one where direct administrative control played a dominant role to one where indirect control played a dominant role. As a result, the vitality and market consciousness of enterprises increased noticeably. What merits attention is that China now regards opening the country to the outside world as one of its basic national policies. Following the establishment of Special Economic Zones, the opening of coastal cities and the development of the three kinds of partially or wholly foreign-owned enterprises, China emerged from its seclusion to take part in international division of labor and joined in the international market competition, gradually learning and grasping the effective means of using capitalism to promote the development of socialism.

The four cardinal principles guarantee the correct orientation of reform and opening; they are the basis for the founding of our country. The policy of reform and opening the country to the outside world gives new contents to the four cardinal principles. It is the way to strengthening the country. The two are interrelated and interdependent, and are united in the practice of building socialism with Chinese characteristics. Building socialism with Chinese characteristics is a fine example of combining the general laws and common attributes of socialism with the specific laws and individual attributes of the actual conditions in China. Where the general laws of socialism are concerned, it is not difficult to know and understand the public ownership of the means of production, distribution according to work, development in a planned and proportionate way, the leadership of the communist leadership, the dictatorship of the proletariat, the guidance of Marxism, and so on. The difficult thing is putting them into practice under Chinese conditions while fundamentally reflecting the basic demands of socialism. Since the late 1970's, the party has been taking bold steps to eliminate interference from dogmatism, ossification, and bourgeois liberalization according to the principle of "seeking truth from facts and emancipating the mind," and has found the basic road to building socialism with Chinese characteristics. We are against the bourgeois liberal viewpoint of "total Westernization" because we will push our country away from the socialist orientation if we apply this viewpoint in reform and opening the country to the outside world. We must also do away with dogmatic interpretations of Marxism and the ossified views ascribed to Marxism, because we will doubt, even negate, the reform and open policy if we look at the four cardinal principles through

these modes of thinking. Socioeconomic development in China during 1980-90 demonstrated with concrete facts which impressed the whole world that reform and the opening of China to the outside world were the basic motivation of socioeconomic development. During this period, GNP registered an average annual increase of 9 percent, substantially higher than the 6.5 percent average in 1953-80. The total value of agricultural production increased at an average annual rate of 6.3 percent. Not only did major agricultural products hit all-time records, but the rural economic structure also underwent major changes. The emergence of township and town enterprises expedited the development of the rural commodity economy. The total value of industrial production increased at an average annual rate of 12.6 percent. The output of major heavy industrial goods registered substantial increases as the consumer goods industries developed day by day. Particularly noteworthy is the marked improvements in the standards of the material and cultural life of urban and rural residents. In 1990, the per capita living expenditure income of urban and rural residents was 1,387 yuan, while the per capita net income of peasants was 630 yuan, up 68.1 percent and 124 percent, respectively, after allowing for price rises. Average annual increases were 4.8 percent and 7.6 percent respectively. The problem of providing food and clothing for the overwhelming majority of the population was basically solved, and a section of the populace was approaching a well-off standard of living. Take food, for instance. In 1990, people had an intake of about 2,600 calories from their daily diet. Take housing for another instance. Per capita living space in cities increased from 3.9 square meters in 1980 to 7.1 square meters in 1990. In the rural areas, it increased from 9.4 square meters to 17.8 square meters. Household electrical appliances found their way into most families. The improvement in the quality of clothing is evident to all. In short, the reform and open policy has ameliorated the contradiction arising from the fact that the socialist relations of production and the superstructure cannot quite keep up with needs of the further development of the forces of production, enabling the socialist system to make self-improvements. Of course, we have not always been consistent in our adherence to the four cardinal principles. We were sometimes too rigid and sometimes too flexible, and we overlooked the fact that class struggle would still intensify under given climates at home and abroad. While grasping the improvement of material life, we sometimes relaxed our efforts to improve our spiritual and cultural life. The bourgeois liberalization has interfered with the orientation of the reform and open policy for a while, but our party has put right these deviations and enabled the reform and open policy to once again advance along the new and level road.

III. Take the Improvement of Economic Performance as the Central Task and Ensure the Sustained, Stable and Coordinated Growth of the National Economy

This is in fact shopworn stuff, but then it is also a yet unfulfilled ambition. The "Proposal for the 10-Year

Program and Eighth Five-Year Plan for National Economic and Social Development" put forward at the Seventh Plenary Session of the 13th CPC Central Committee at the end of last year emphatically pointed out that we must always take the improvement of economic performance as the central task in all our work and, on the basis of summing up past lessons, put forward the general policy of maintaining the sustained, stable, and coordinated growth of the national economy. This became the party's important economic guideline for socialist economic construction. The core idea of this economic guideline is: We must correctly handle the relationship between performance, speed and ratio, earnestly change the "Left" erroneous guiding thoughts developed over the years, and abandon the economic development strategy of expanded reproduction by extension, which features a high level of accumulation and consumption and a low level of output and efficiency, in favor of a new approach with more realistic speed, better economic performance and more tangible benefits to the people.

The question of development speed. China is a developing country with poorly developed forces of production but a relative surplus of labor supply. Internal and external factors will, on the political, economic, social and other levels, force the government to put undue emphasis on the speed of development. The reason is that under the old system, it is impossible to generate sufficient revenue to satisfy the fiscal needs for culture, education, and welfare. Without a high speed of development, it is also impossible to provide sufficient job opportunities for yearly increases in labor supply. There is also the unwarranted mentality in political propaganda to use the speed of development as the basis of comparison between the two systems. Under the old system, a high speed of development can only be sustained by a high rate of input, and high speed sustained by high input will invariably result in fiscal deficits and credit inflation, so that total demand will exceed total supply. The idea of sustained and stable development is in fact a question of speed. It seeks to maintain a given speed of economic development, avoid big fluctuations and achieve moderate growth. If the speed of economic growth is kept too low, the resultant dwindling in total demand will lay much of the existing productivity to waste and increase the cost of production, thereby adversely affecting economic performance. Again, if the rate of economic growth is pushed too high and undue emphasis is put on high speed, the resultant excessive total demand will prove too much for existing production conditions and material supplies. This too will increase the cost of production and adversely affect economic performance. Thus, we must combine speed with performance. While a moderate rate of economic growth may be calculated through the use of mathematical formulas, historical experience will also provide us with relatively practical upper and lower limits. On the one hand, past experience tells us that economic overheating is often the fault of industry. At a time when the old and new systems coexist, the state-owned economy

itself embodies mechanisms of investment thirst and swelling consumer demand. It is thus necessary to contain the scale of industrial development, particularly that of the processing industries. On the other hand, we must also consider the needs to increase job opportunities and improve the people's livelihood. An excessively low speed of development and full-fledged economic recession will also bring about a host of social problems. The 6 percent average annual GNP growth rate for the next 10 years was worked out mainly on the basis of historical experience and the actual target of strategic development. In order to achieve a moderate rate of economic growth, we must expedite the replacement of the economic operating mechanism. "The planned practice of economy is the biggest practice of economy, and planned waste is the biggest waste." Under the old system, big fluctuations are unavoidable. The new economic operating mechanism which combines the planned economy with market regulation, such as macroeconomic regulation and control, can make full use of financial and monetary policies to guide the scale of investment and consumer demands. At the same time, it can make use of the competition mechanism of the market in fostering the superior and eliminating the inferior to readjust the irrational organizational structure and product mix of enterprises.

The question of production structure. Production structure usually refers to the proportions of labor resources and other production factors allocated to different sectors and trades and their interrelationships. Production structure is a dynamic concept. It not only refers to changes to the original production structure as a result of scientific and technological development and increased labor productivity, but also hides the development trend of the original production structure due to differences in resource allocation systems and production policies. A rational production structure is the basis for ensuring a high quality of overall economic growth. First, as China used to be a predominantly agricultural country, the relationship between industry and agriculture is always the key to the development of a rational production structure. Historical experience shows that the normal ratio of growth between the two sectors is roughly 2-2.5:1. The sluggish development of agriculture and the imbalance between agricultural and industrial growth have often led to a turbulent situation in the national economy as a whole. We must thus uphold the idea of taking agriculture as the foundation and increase the quantity and venues of state agricultural investment. At the same time, we must stabilize the existing economic policies and reform measures in the rural areas, develop agricultural science and technology, and maintain stable agricultural growth. Next, let us look at the relationship between the processing industries and the basic industries. Energy, transport, and communications have long been the "bottlenecks" in our national economic development and have seriously restricted and slowed down the development of industry and agriculture. Thus, the establishment and strengthening of basic industries and the infrastructure on the basis of modern technology are

the prerequisites for the coordinated development of the national economy. Furthermore, let us look at the question of the industrial application of high technological achievements. Due to the discrepancy between hi-tech development and economic development, we have not been able to change the incongruous situation where industries at large have long remained backward in spite of the fact that we can now launch satellites ourselves. In order to truly turn scientific and technological development into the forerunner of economic construction, we must establish as quickly as possible the mechanism for the industrial application of scientific research results. There are two ways to readjust the irrational production structure. One is to replenish the underdeveloped by increasing the volume of investment, while the other is to curtail the overdeveloped by readjusting the existing structure. In the early 1960's, we effectively readjusted the irrational production structure by adopting a number of administrative measures, such as "closing down, suspending and merging with other enterprises or changing their lines of products." Since the 1980's, the decision-makers and economic interests have become more diversified, so that it is no longer possible to effectively change the interest framework through administrative means. Because readjustment through increases in investment is subject to the availability of funds, the pressing problem before us is to readjust the existing production structure as well as the organizational structure and product mix of enterprises through a mechanism which combines planned economy with market regulation, give full scope to the regulatory role of market regulation, and bring about an optimum structure by making use of the competition and elimination mechanisms. At present, the organizational structure of industry as a whole is seen to be backward and is characterized by extensive, lax and small-scale operations. Over 65 percent of existing enterprises have not yet reached the required level of return to scale, while one-third of the country's enterprises have long been running at a loss. In 1990, state subsidies to enterprises with deficits amounted to nearly 60 billion yuan, or 17 percent of budgetary expenditure. In addition, there is also the problem of the rational distribution of productive forces between regions. Under the system of contracted financial responsibility, the production structure of different regions becomes more and more homogeneous. This seriously affects the improvement of performance in society as a whole.

The question of economic performance. On the macroeconomic level, economic benefits are mainly determined by whether or not the production structure of the national economy and the organizational structure of enterprises are rational. If agricultural and industrial growth is not balanced, the relations between different industrial sectors are disproportionate, and scientific and technological development is long held up, it is naturally difficult to achieve substantial economic benefits. On the microeconomic level, economic benefits are mainly determined by the technological level and economic management of enterprises. A breakdown of the economic benefits obtained by an average enterprise

shows that 60 percent of the benefits are attributable to scientific management, 30 percent to scientific and technological progress, and only 10 percent to investment. Poor economic performance has become the crux of the difficulties confronting the national economy as a whole. As figured out by relevant departments, the input-output ratio (that is, the ratio of national income to material consumption) for material production sectors throughout the country was on the decline during 1985-89. It dropped from 0.75 in 1984 to 0.61 in 1989. The main problems include: 1) The material consumption ratio of social products has risen substantially. From 1985 to 1989, the material consumption ratio of social products, calculated in comparable prices, averaged 61.5 percent, 4.4 percentage points above the average increase over years 1980-84, or an annual increase of over 80 billion yuan on the average. 2) The sum of newly gained national income provided by accumulation per 100 yuan has been on the decline. Calculated in comparable prices, the sum of newly gained national income provided by accumulation per 100 yuan averaged 22.8 yuan during 1985-89. This was 17.7 percent less than the 27.7 yuan average during 1980-84. Due to the decline in accumulation, national income also dropped by more than 60 billion yuan. 3) The profit rate on funds was on the decline. In the industrial sector, the rate dropped from 25.1 percent in 1980 to 16.8 percent in 1989; in the commercial sector, profit and tax on every 100 yuan of commodities sold dropped from 8.3 yuan in 1979 to 7.5 yuan in 1989. Of course there are also other ways of judging economic performance. For instance, some comrades held that the shift of the economic benefits of enterprises to society and increases in the borrowing rate, the prices of agricultural products and price subsidies over the past 10 years would all send the cost of production soaring. They also believed that the economic benefits of enterprises would be adversely affected in the future because they need to improve the economic environment, better the working conditions of employees, provide in-service training, promote integrated labor insurance and increase the rate of depreciation of fixed assets, among other things. They thus drew the conclusion that the economic performance of enterprises has been improving these past 10 years. This reasoning is not entirely unjustified. The financial problem, however, as the integrated reflection of the country's economic situation as a whole, is still very grim. We therefore have no grounds to claim that our economic performance has been good. An effective way to improve the economic performance of enterprises is to encourage the overwhelming majority of enterprises to cater to market needs and push enterprises into the big ocean of market competition. We must thoroughly implement the stipulation regarding the decisionmaking power of enterprises and try, as quickly as possible, to help enterprises become truly independent economic entities as well as socialist producers and operators who have the power to manage their own affairs and are responsible for their own profit and loss. We must see to it that they become juridical persons with the ability to transform and develop themselves, and help them raise

their technological level, strengthen management and enhance their market consciousness. The Eighth Five-Year Plan for national economic and social development suggests that we "enlarge the scope of unemployment insurance." This will provide an economic guarantee for our current efforts to tackle the problem of invisible unemployment and increase production efficiency. A sample survey shows that some 30 million people out of 130 million employees are in fact in an unemployed state. "Five persons doing the work of three," the egalitarian principle of distribution and lax labor discipline all make it difficult to push enterprise management to a higher level. Thus, the establishment and improvement of a social security system which covers unemployment insurance and social relief will provide the necessary economic guarantee for strengthening the mechanism for fostering the superior and eliminating the inferior, promoting fair competition, and maintaining social stability.

In short, combining economic performance with a moderate rate of growth and a rational production structure, taking the improvement of economic performance as the central task, and maintaining sustained, stable and coordinated national economic growth represent our party's scientific summation of socialist economic development. As such, they are also major guiding thoughts for future economic development.

In "Where Do Correct Ideas Come From?" Comrade Mao Zedong pointed out: Correct ideas do not drop from the skies and are not innate in the mind. Rather, they come from the summation of successes and failures in social practice. "Often, correct knowledge can be arrived at only after many repetitions of the process leading from matter to consciousness and then back to matter, that is, leading from practice to knowledge and then back to practice."¹⁰ Comrade Mao Zedong also expounded on this idea: Often, under specific historical conditions, a correct idea is also arrived at through the trial of strength against Right-opportunist "ideas that cannot change with changes in objective conditions" and Left-opportunist "ideas that have exceeded a given stage in the objective process of development."¹¹ The CPC has been leading the people of all nationalities in carrying out socialist economic construction for 35 years. The party fought hard for 22 years from the Eighth National Party Congress (September 1956) to the Third Plenary Session of the 11th CPC Central Committee (December 1978) in its effort to shift the work focus, during which time economic work had suffered great losses due to "Left" erroneous guiding thoughts. Comrade Sun Ye Fang had done some useful research on the party's concept of economic construction. Back in early 1982, he pointed out that "this Chinese party of ours was prone to Left deviations." Over the past 30 or more years, however, most people not only failed to recognize this fact and admit our "Left" errors, but called for incessant efforts to fight the Rightists. This is what caused the national economy to suffer such great losses. Based on the historical materials used by Comrade Liu

Shaoqi when he gave lectures at the Central China Bureau's party school, Comrade Sun Yefang pointed out: "In the history of the Chinese party, the Right-deviationist opportunist line which affected the whole country only appeared once, and that was the Right-deviationist line of Chen Duxiu. It only lasted a short duration, spanning no more than a year from the time the Northern Expeditionary Army reached Hunan to the time Chiang Kai-shek and Wang Jingwei staged their respective rebellions. The flightist line of Zhang Guotao and the Right-opportunist line of South Anhui not only lasted a short time but only affected certain localities. After the leadership of Chen Duxiu's Right-deviationist opportunist line was overthrown, the three 'Leftist' lines of putschism, Li Li-san and Wang Ming dominated the whole party one after another, with each line more 'Left' than the previous one. The Zunyi Meeting overthrew the organizational leadership of the Wang Ming line, but Wang Ming's dogmatic ideology was not eliminated until after the rectification movement of the 1940s."¹² On 13 July 1959, Comrade Peng Dehuai wrote a letter to Comrade Mao Zedong, in which he criticized the "Left" erroneous tendencies in economic work. He said: "The rectification of these 'Left' mistakes is usually more difficult than the elimination of Right-deviationist conservative ideas. This has been proved by the party's historical experience."¹³ These words written in blood are worth our deep pondering. Thus, in our efforts to thoroughly sum up the party's major economic thoughts during the period of socialist construction, we must persist in seeking truth from facts and proceed from China's reality in everything. In accordance with Comrade Deng Xiaoping's basic theories for building socialism with Chinese characteristics, we must guard against interference from the Right and "Left," particularly interference from the "Left" deviationist erroneous ideas of hoping for quick success and bypassing the stage of historical development in economic work. We must accurately apply the party's experience in waging a struggle between the two fronts in theoretical work, and overcome interference from all sides. In the past, the following situation often occurred: When Right-deviationist erroneous tendencies endangered actual work and the party took steps to rectify these tendencies, the mainstream faction no doubt comprised Marxists who based themselves on China's actual conditions and persisted in seeking truth from facts. As this was going on, however, erroneous ideological trends which were "Left"-deviationist to begin with would sneak out. They were very "resolute" and vehement in their opposition to the Rightists, as if they were representatives of the correct ideology. When "Left"-deviationist erroneous tendencies began to endanger actual work and the party took steps to rectify these tendencies, genuine Marxists no doubt still made up the mainstream faction, but erroneous ideological trends which were Right-deviationist to begin with would also sneak out. When they opposed the Leftists, they also spared no efforts and were full of indignation, as if they alone represented Marxism. In the course of rectifying deviations, comrades who persisted in seeking truth from facts often

found themselves in a dilemma. When the Leftists tried to rectify Right-deviationist mistakes, they might be accused of "not doing their best in struggle." When the Rightists tried to rectify Left-deviationist mistakes, they might be ridiculed for being "ossified." Both extremist ideological trends could gain the upperhand. The CPC and the Chinese people, however, who have gone through tempering during the 10 years of the Cultural Revolution and the 10 years of reform and opening up, have learned to use the Marxist criterion of seeking truth from facts to assess and judge issues, even see "on the hindquarters the old feudal coats of arms."¹⁴ Only by taking "one focus and two basic points" as our guiding thought will we be able to successfully fulfill the second- and third-step strategic objectives of social and economic development before the end of this century or the middle of the 21st century.

Footnotes

1. The new method of computation here refers to the "purchasing power parity theory." It compares the prices of 500 commodities of 151 varieties, chosen by various countries by mutual consent. Prices are calculated in the U.S. dollar, as it is an international currency. Using this method, discrepancies associated with the exchange rate method can be avoided to a certain extent. Normally, per capita GNP is calculated according to the exchange rate of the country in question. Since the exchange rate is determined by the relative strength of the nominal purchasing power of a country, its readjustment is subject to a variety of factors. Per capita GNP calculated according to the rate of exchange thus cannot truthfully reflect a country's comprehensive national strength or the real purchasing power of money. As estimated by foreign economists and Chinese scholars, the difference between China's GNP calculated according to the purchasing power parity method and according to the exchange rate method is 1.3-3 times, while that for per capita GNP is two-three times.
2. Sun Yefang [1327 0396 5364]: "Thoughts on Certain Theoretical Issues in Socialist Political Economics," *Collected Works of Sun Yefang*, pp 278-279.
3. Xue Muqiao [5641 2550 2890]: "Certain Theoretical Issues in Socialist Economics," *ZHONGGUO SHEHUI KEXUE* No 1, 1991.
4. See "Collection of Important Documents Since the Third Plenary Session," Vol 1, People's Publishing House, p 101.
5. Ibid.
6. Mao Zedong: "On the Correct Handling of Contradictions Among the People," *Selected Works of Mao Zedong*, Vol 5, p 373, People's Publishing House, 1977.
7. See "Decision of the CPC Central Committee on Reform of the Economic Structure," *RENMIN RIBAO* 21 October 1984.

8. See *Selected Works of Mao Zedong*, Vol 5, pp 273, 275.
9. Deng Xiaoping: "Build Socialism With Chinese Characteristics," p 35, People's Publishing House, 1984.
10. See *Selected Readings from the Works of Mao Zedong*, Vol 2, pp 839-840, People's Publishing House, 1986.
11. See *Selected Readings from the Works of Mao Zedong*, Vol 1, p 134, People's Publishing House, 1986)
12. See "Why the Need for Readjustment? An Important Question that Merits Attention in Readjustment," *Selected Works of Sun Yefang*, p 769, Shanxi People's Publishing House, 1984.
13. Quoted from "Chronicle of Major Economic Events of the PRC," p 292, Jilin People's Publishing House, 1987.
14. Marx and Engels, "Manifesto of the Communist Party," *Selected Works of Marx and Engels*, Vol 1, p 274, People's Publishing House, 1972.

PROVINCIAL

Chongqing's New Experiments With Enterprise Responsibility

91CE0674B Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 10, 20 May 91 pp 19-21

[Article by Luo Guogang (5012 0948 4767): "Change Mechanisms, Enhance Vitality"]

[Text] Chongqing has studied the experience of the coastal SEZ's in order to achieve the goals of giving enterprises expanded authority, loosening the ties around them, orienting them towards the market, allowing them to operate independently and compete, and ultimately to enliven them and increase efficiency. At the beginning of the year Chongqing selected some state cooperative commercial enterprises as test sites for the "four liberalizations" of operations, pricing, distribution and employment. Three months of practicing these reforms have yielded preliminary successes. The major methods Chongqing used and its experiences follow:

I. Liberalized Operations

All commercial enterprises can operate independently as their own conditions permit, except for producers of commodities which are specially managed, sold on a monopoly basis, or managed by state-specified units. With the approval of relevant departments, where conditions permit, enterprises can also engage in wholesaling important social commodities. In this respect, many enterprises that are test sites have greater autonomy; they have expanded their scope of operations and enhanced market competitiveness. For example, after liberalizing operations, the Chongqing Shuangpai

Trade Company focused on readjusting its operational structure. Premised on doing a good job with their main line, and based on actual conditions at different sites, they opened up operations, being comprehensive or specialized where needed. They enlivened operations distinctively. Specifically:

1. They developed their strengths and expanded operations. The aforementioned company is situated in a mining area where the population is concentrated and there is great purchasing power. It thought of all possible ways and means to expand its scope of operation and kinds of products. It now wholesales alcoholic beverages and sells on a retail basis objects for interior decoration, gold and silver jewelry, sports equipment, cultural artifacts, children's books, video tapes, and motorscooter accessories. The company also revamped two floors of its commercial business offices in the Shuangpai store, adding a self-service area for high quality clothing, four kinds of shoes, and small commodity items. It now offers a full array of products in many specifications and styles. Furthermore, the company took aim at the rather backward cultural and recreational facilities in the Shuangpai area. It enhanced a newly opened dance hall by adding ceremonial and banquet halls, reception halls, recreation rooms, and offering services for wedding and birthday celebrations. It also inaugurated various entertainments such as a musical Karaoke [sing along] tea garden, photography and video services, a video arcade, and board games. This has altered the former, single style of "counter commerce," bringing rather good social and economic returns.

2. They made outstanding strides in reorganization. The company's Chenjia Wan Bay store is situated in the sandbar where companies stand in great numbers. Given this reality, the company suited measures to local conditions. It made a timely reorganization of its operational structure and brought out its "specialized" characteristics. It turned the general Chenjia Wan Bay store into one specializing in items for mothers and children. In addition, they turned two floors of the Shuangpai secondary food product store into a shop offering only cooking utensils. The shop attracts customers and has improved results.

3. They expanded business and actively attacked. The aforementioned company changed its old style of just minding shop and waiting for customers to come to it. It actively expanded business operations. Besides offering the city's famous, special, outstanding, and new products, it also actively organized sales teams to link up with outside areas. Commodities worth 600,000 yuan were brought in mainly from Guangdong and Shanghai. This enlivened the sales force of the company. Likewise, it sent competitive local products to areas within and outside the province. These actions contributed to commodity circulation. At present the company is adding a sales outlet to the Jiefang Pai Chongqing Commerce Building. Thus, there is a new competitive situation with three beads on one strand—from Shuang Pai to Shaping Sandbar to Jiefang Pai.

4. They offer customers convenience and excellent service. The company adheres to service such as delivery of goods at appointed times, bringing items from selected sites to factories, selling in the countryside, and home repair. Large, high quality goods bought by customers are delivered to their door. Moreover, the company helps install the items and shows customers how to use them. At the same time, if an item—no matter the size—needed by a customer is temporarily unavailable at the store, the company will go all out to help the customer get it. This has improved the company's reputation. Sales figures have risen quickly. From January to March 1991, the entire company had a sales figure of 4.54 million yuan, up 18.44 percent over the same period in 1990. Actual profits rose 79.13 percent, and remitted taxes increased 42.42 percent.

II. Price Liberalization

Prices have been liberalized on all commodities except for those which are set in accordance with state regulations. Enterprises set prices themselves based on the laws of value and local market supply and demand. The common method used by the trial enterprises is: Enterprises strictly observe commodity prices set by the state. Prices are set flexibly on commodities which the state allows enterprises to set, based on market conditions. Some price-setting authority is given to managing departments. Prices are set by sales groups or managers on the small number of commodities which carry great risk, are in short supply, or sell sluggishly. For example, the Chongqing Lianglukou Department Store sets different prices for batch sales, seasonal variation, and returns. It gives a 10 percent discount on seasonal sales of wool and yarn that shed. It gives a five percent discount on batch sales of shirts, shoes, and socks. It allows price negotiations on high quality clothing and commodities which are in large quantities but not selling. These measures have infused capital and increased sales.

III. Liberalized Distribution

This process is implemented on the basis of the contract responsibility system. Based on the principle of distribution according to work, enterprises can intimately tie an employee's income to labor productivity. Doing so overcomes distribution gaps, and smashes the "iron rice bowl" and egalitarianism while taking note of the interests of "the three relations" and ensuring that the state earns more while enterprises retain more. Policies stipulate that incomes of workers in trial enterprises implementing the "four liberalizations" shall not be levied wage readjustment or bonus taxes. In this regard, test enterprises generally have adopted the following: managing departments (commercial departments) are compensated by linking sales to profits; managing departments tie the wages of the counter staff to a 100 yuan sales figure; stock personnel are compensated on the basis of sales rates using 0.10 yuan of profit, price differences and good selling commodity rates. For managers and reserve strength personnel, a dual reckoning

system is used involving the enterprise's returns and the responsibilities of one's position. Together with these measures, the enterprises also make use of risk mortgage contracts, fully floating wages, paying wages according to business returns, and bonuses in which there is no ceiling nor guaranteed minimum. For example, the Rendaomei Store of the Chongqing Vegetable Company was bold in liberalizing deployment. It had two noteworthy breakthroughs. One was that in terms of labor deployment between the company and the store, it broke through the former limitation on wages and a four and one-half month bonus. It compensates store workers at a rate in which 40 percent of total wages are linked to sales and 60 percent to profits. Wages are determined on a monthly basis according to workers' returns with neither a ceiling nor guaranteed minimum. Second, in deploying workers within the store, it broke through the old wage standard and deployment system, intimately relating worker income directly to the results of an individual's labor; a worker's entire basic wage, floating wage, bonus, subsidy, and food and entertainment allowance are combined and float entirely according to sales and profits.

In actual operation, they use different compensation methods for workers at different posts. A wage content system is reckoned per 100 yuan of sales for managers. For personnel manning different counters, monthly sales volumes are determined, and then a wage content coefficient is derived by tying together the person's original income and sales figures. Each person has his own figure and coefficient; the more one sells, the more one gets, and vice versa. For wholesalers, they use a wage content system with 0.10 yuan profit per 100 yuan of sales. An individual's income is derived from retail sale per capita sales figure plus a 0.10 yuan wholesaling profit to arrive at a wage content coefficient for compensation. For managers, they use a 100 yuan profit sales wage content system. Sixty percent of an individual's original income is derived from the entire store's per capita profits and 40 percent is derived from the entire store's per capita sales to arrive at a wage content coefficient for compensation. Furthermore, to resolve conflicts arising from inequalities in this system due to better workers' longer experience on the job, each individual worker has a content wage coefficient figure at a specified amount. A uniform content coefficient is used for those who surpass the amount. This protects the interests of older workers and motivates younger ones, and embodies the principles of fair competition and the same compensation for the same work. From January to March compared to the same period last year, the store's sales figure rose 51 percent, real profits rose 55 percent; taxes remitted rose 49 percent. Workers' monthly per capita income was 263 yuan, up 23 percent, of which, the highest and lowest were 400 yuan and 180 yuan, respectively. This opened up wage differences.

IV. Liberalized Employment

Enterprises use a system of labor contracts for all employees and awaiting posting in-house. Workers have the right to resign and find positions for themselves, and

enterprises have the right to get rid of workers. Workers' original ownership status can be maintained on file. In this regard, many test enterprises use the following methods: They established systems of labor contract for all workers, cadre appointment, and in-house awaiting posting. They clarified responsibilities for positions, specified positions and personnel, and tightened labor discipline. According to relevant state regulations, they formulated enterprise operating rules allowing employees the right to resign and seek jobs themselves and enterprises the right to dismiss workers who violate discipline. Relevant departments will accept and take charge of dismissed and disciplined workers according to regulations. For example, on the principle of using capable workers and punishing the lazy, the Rendaomei store used a method of "one system with three posts," namely, competition for posts, awaiting posts in house, and disciplinary dismissals. Specifically, the "one system" means implementing a labor contract system for each position. This breaks through the former status boundaries of set jobs for cadres and contract work. Each employee signs a labor contract for his position with the enterprise. Labor is reckoned per half year. The "three posts" refer to labor grouped "on post" who are compensated according to the allocating of wages for that post. Those who have not been grouped have two months to "test a post" during which time they are paid their original basic wage. After the two-month test period, those who do not measure up are called "awaiting posting." This waiting period lasts three months, during which they only receive living expenses. If they still do not measure up, they await posting for another three months. The enterprise is authorized to dismiss them if there is no improvement after two such "test posts" and "awaiting posting." The workers also can seek a way out themselves. At present, one worker at the store has left his post for not measuring up.

In sum, the "four liberalizations" have brought vitality to enterprises and greatly affected other enterprises. One wholesaling enterprise after another has wanted to do a trial run. The city government has given approval for the Chongqing Hardware Transformer Station to try out the "four liberalizations" as a wholesaler. It will begin this reform measure in the second quarter.

Chongqing has tried out the "four liberalizations" for just a short while. There are still many problems. For example, some enterprises have neglected their main lines of operation and gone beyond their scopes of business without regard to real conditions. Regarding price liberalization, there is still a tendency to rely on higher prices as a way to get results. Regarding labor deployment, they hope to open new policy precedents and are unable to correctly handle relations among the state, collectives, and individuals. Regarding liberalized use of labor, the hands and feet of some enterprises are bound because of uncoordinated policies. These problems must be resolved further. Therefore, the task in the next step of the "four liberalizations" is to: sum up

experience, accelerate the pace, and formulate corresponding policy measures to normalize the operations of enterprises on the basis of existing successes.

Ningxia's Industrial Economy

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28 Jul 91 p 1

[Article by Yu Xiaolong (0060 1420 7893): "Review of the Industrial Economic Situation in Ningxia in the First Half of the Year"]

[Text] The first half of 1991 was an extremely abnormal time for industrial production in Ningxia. Contradictions such as the market slump which began early in the year, impeded circulation, overstocked products, ineffective working funds, and inadequate rail carrying capacity were all intertwined, bogging down and sustaining the slow rate of production operations, and causing a steep drop in first quarter production.

This is a serious situation which has attracted attention from all sides. The autonomous region party committee and the people's government have given it a high degree of attention, actively taken measures, strengthened macroeconomic control, adopted the strategy of "quality, variety, and yearly benefit" activity, engaged in widespread mobilization and conscientious planning, centered on the thorough development of the "six grasps" and the "six promotions" (grasp the introduction of new products, promote integrated adjustment; grasp sales work, promote market openings; grasp quality control, promote achievement of product excellence; grasp smooth funding, promote stock inventorying, grasp energy conservation and reduced consumption, promote making up deficits and increasing surpluses; and grasp macroscopic coordination, promote the solution of difficult problems), organized large-scale inspections of quality of the whole region, convened regionwide sales work experience exchange meetings, and symposia on clearing "triangular debt." The primary leaders of the party committee of the autonomous region, such as comrades Huang Huang [7806 3874] and Bai Lichen [4101 4539 1820], are leading responsible persons in the relevant departments to make a thorough investigation and study of enterprises. The party committee of the autonomous region and the people's government have drafted a report "On Some Policy Measures for Further Invigoration of Enterprises," and created a more relaxed external environment for enterprises. In the face of serious difficulties and pressures, large numbers of staff and personnel on the industrial front of the whole region stimulated their enthusiasm for facing difficulties and moving ahead, grasping quality, promoting variety, grasping the market, striving for speed, increasing efficiency, and pushing industrial production to develop in positive directions. A favorable trend has emerged in the second quarter, and things are beginning to gradually pick up, with industrial production in April increasing by 4.5 percent over the same period a year ago and May seeing a 15 percent rise, the biggest monthly increase

since last year. In June, despite a situation in which the base for the same period was higher, there was still a 9.6 percent increase. For the first half of the year, industrial production for village level enterprises and enterprises above the village level came to 3.612 billion yuan, 48 percent of that planned for the whole year, and an increase of 5.6 percent in comparison to the same period last year. Among these, industry owned by the whole people achieved 3.017 billion yuan, an increase of 3.9 percent, collective industry achieved 560 million yuan, an increase of 12.4 percent and rural industry increased at a the faster rate of 27.9 percent. Heavy industry steadily increased, rising by 7.3 percent compared to the same period last year, while under an extremely difficult situation, light industry went through a difficult struggle, reversing a long-term trend of negative growth, though the proportion of light industry in the economy is still tending to decline. Looking at the situation of 16 central and region-subordinate industrial departments and the overall situation of 20 cities and counties, there are nine departments and 16 cities and counties that have a different degree of increase in comparison to the same period last year.

Looking at the output of 43 major products, 26 saw an increase in comparison with last year, and tended to increase gradually on a month by month basis, while the increase in variety also grew month by month. Of these, energy, raw and processed materials, and saleable everyday use industrial products maintained a comparatively steady increase, while products serving the needs of agriculture also increased.

In the wake of the gradual pick up in the rate of production, the trend toward large-scale reduction in enterprise economic efficiency has been contained. The reduction in regionwide budgeted industrial enterprise real profits and taxes picked up by 7.4 percentage points in May as compared with April, and 11.7 percentage points in June compared to May.

In analyzing the industrial economic situation in the region as a whole in the first half of the year, we note that though there was a weakening of the momentum for sustained reduction in overall industrial economic efficiency based of the substantial reduction of last year, a favorable turnaround emerged, and there was a reduction in the degree of falloff or a reversal and subsequent increase of major economic indices. However, looking at the overall situation, economic efficiency declined, the number of enterprises operating at a loss increased, and there was not a complete halt to the momentum towards sustained increases in the amount of losses. In the first half of the year, regionwide budgeted industrial enterprise sales income totaled 969 million yuan, an increase of 7.8 percent over the same period last year, and real profits and taxes were 96.42 million yuan, a reduction of 19.2 percent, of which real profits were 25.49 million yuan, a reduction of 48.7 percent. Sixty out of 193 budgeted industrial enterprises showed losses, an increase of 26 from the same period last year, the range

of losses reached 31 percent, while the loss amount was 19.83 million yuan, a 1.14-fold increase over the same period last year.

Industrial production continues at a low speed, and the situation of inefficient operations as yet shows no signs of substantial improvement, due to the fact that the major factors affecting and restricting production operations have still not been fundamentally solved. The major problems are: 1) Product sales difficulties, and the serious problem of overstocking. Due to the fact that sales are sluggish, in the first half of the year, the regionwide budgeted industrial enterprise produced finished product capital amounted to 566 million yuan, a net increase of 125 million yuan from last year. Due to excessive overstocking, some light textile enterprises had to limit or halt production. 2) Serious arrears in payments, slow fund turnover, a large increase in enterprise bank loans, followed by a large rise in interest payments, and a reduction of enterprise profits. 3) A growth in the number of factors involving policy-related increases in expenditures. Since the last half of last year, in the wake of the upward adjustment in the prices of coal, electricity and some raw materials, railroad and highway transport costs have risen, and under the effect of expenditure factors such as grain subsidies entering into costs, costs of comparable products continued to rise. From January to June, the costs for regionwide budgeted industrial enterprises rose 2.65 percent. 4) Railroad transport capacity is insufficient, there has been an increase in overstocking of products requiring transport, and some products which have been successfully marketed could not be transported, affecting sales income and the realization of profits.

The last half of the year is always a golden season for industrial production. Faced with a situation where the time is half gone and the mission is not yet half accomplished, we certainly cannot slacken up in the slightest just because production has started to turn around. We must press on to the finish without letting up, and spare no effort in climbing the hill. If the seven percent industrial production growth rate plan proposed this year by the autonomous region government is to be met, in the second half of the year it will be necessary to achieve a total industrial output value of 3.91 billion yuan, and a monthly average of 652 million yuan. Under the premise that there will be no large new projects that will boost production capacity, we must achieve the annual mission, conscientiously strengthen leadership, earnestly implement the report "On Some Policy Measures for Further Invigoration of Enterprises" put forward by the autonomous region party committee and the people's government, strengthen internal management of enterprises, pool the wisdom and efforts of everyone, overcome difficulties, and gain the upper hand. All sections of society must understand, make allowances for and support enterprises, actively improve the external environment faced by enterprises, and promote the sustained, stable and coordinated development of industrial production in our region.

FINANCE, BANKING

Journal Examines Financial Reform

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[Article by People's Bank of China, Wuhan Branch, Finance Institute Task Force headed by Li Maiqiu [2621 7796 4428], with Hu Jizhi [5170 4949 0037] doing the actual writing; Wang Zhiqing [3769 2784 7230], Zhao Ziming [6392 5261 2494], Chen Anzhi [7115 1344 4249], Zhu Puhui [2612 2528 1920], Li Zhaobi [2621 0340 1732], Que Fangping [7067 2455 1627] and Ruan Xuzhou [7086 4872 3166] participating in the discussion; Comrade Liu Houlin [0491 0624 2651], doing statistical work; and Ye Di [0673 2769], editor: "Some Thoughts on Financial Reform in China in the 1990's"]

I. Actual Basis for Deepening Reform

1. Basic accomplishments of financial system reform which started in the 1980's.

The 1980's saw a period of remarkable achievements in financial reform and development. Guided by the need to establish a socialist financial system with Chinese characteristics by developing a planned commodity economy, the financial reform took the establishment of "four major systems" as its basic guiding thought and brought about significant changes in the financial system by grasping three major tasks, namely: Developing the financial market, running specialized banks as enterprises, and establishing and improving a system of financial regulation and control.

A. The promotion of financial system reform and the emphasis on the development of the banking industry hastened the development of financial institutions as China's primary mechanisms for the absorption of savings and conversion of investment. Before the reform, at the end of 1978, bank savings deposits in the whole country amounted to 21.06 billion yuan, or 21.9 yuan per capita. Of the total national net savings, household savings absorbed by banks accounted for only 4.8 percent; bank credit was responsible for only 20.6 percent of the allocation of funds to various sectors of society; and financial assets accounted for only 4.2 percent of GNP. Since the commencement of economic restructuring in 1979, we have taken a series of measures to reform the traditional banking system by first making a concentrated effort to develop the functions and powers of banks in developing the commodity economy. The reform measures include expanding the banking business, relaxing control over the settlement and opening of accounts, and improving credit management. After the pattern of national income distribution was systematically tilted in favor of enterprises, particularly in favor of employees and workers, the development of the banking industry gradually became the theme of financial reform. In 1978, there were only 5,650 savings outlets providing personal services to urban and rural residents. This number soared to 46,185 in 1988 and to 52,035 in 1989.

The average rate of increase in the number of bank savings outlets was 22.4 percent over the years 1978-1988 and today's total is 9.2 times that in 1978. The number of grassroots units providing banking services to party and government organs, mass organizations, and industrial and commercial enterprises increased from just over 28,000 in 1978 to 41,626 in 1989, up nearly 50 percent in 11 years. Meanwhile, through the reorganization of financial institutions and the leadership system, a financial organizational system with the People's Bank at the head, specialized and comprehensive banks as the main body, and supplemented by insurance, trust, securities, and urban and rural credit cooperatives, gradually took shape. The enormous development of the banking industry triggered off the gradual development of China's financial institutions into primary mechanisms for the absorption of savings and conversion of investment. In 1990, personal savings absorbed by banks totaled 703.4 billion yuan, 32.4 times more than in 1978. Loans extended by banks totaled 1,514 billion yuan, 7.2 times more than in 1978. The dependence of economic growth on financial institutions increased from 52.08 percent in 1979 to 87.01 percent in 1990.

B. The improvement of planned management and the introduction of the market mechanism resulted in the initial formation of a financial operating mechanism which organically combined planned finance and market finance. On the question of credit fund management, centralized deposit taking and granting of loans were replaced by control of bank balance and the practice of substantiating loans by deposits to form a vertical-horizontal management system. In the application of the interest rate leverage, the implementation of differential interest rate, floating interest rate, preferential interest rate, pecuniary interest rate, and other measures resulted in the increasingly important role played by the interest rate leverage in regulating money supply and demand and guiding the rational flow of funds. The emergence and development of the financial market after 1986 provided a good opportunity for the introduction of the market mechanism into the financial sector. Horizontal financing networks with major cities as their centers gradually developed into interbank borrowing and lending markets. They became the best supplementary means for utilizing the market mechanism to regulate the flow of funds and demonstrated great vitality and viability. Statistics show that in a peak year, interbank borrowing and lending totaled more than 230 billion yuan, with annual transactions exceeding 30 billion yuan in the region where interbank dealings were most active. Interbank borrowing and lending thus became the biggest financing channel outside bank credit. Along with the rapid growth of interbank borrowing and lending, financing through issuing bonds and shares also gradually developed. The increase in the market stock of securities precipitated the birth of secondary securities markets for the transfer and cashing of various types of securities. At present, secondary securities markets have taken shape in major cities. The buying and selling of

shares in Shenzhen and the establishment of the Shanghai Stock Exchange marked a new stage in China's financial development.

C. The promotion of the invigoration of the microeconomy, and the strengthening of financial macroregulation and control, provided the experience for forming the indirect regulation and control mechanism. Since the very beginning the financial reform had, as its basic starting point, the problem of how to cater to and promote the development of a planned commodity economy. In the whole process of simplifying administration and decentralizing power during the economic restructuring, the "relaxing money supply" measure was repeatedly adopted by banks to promote production and invigorate circulation. After 1985, steps were taken to strengthen financial macroregulation and control in financial reform. Through years of hard work we have accumulated some experience in applying financial means to regulate economic operations. The existing means of financial macroregulation and control are characterized by the fact that, while stressing the control of aggregate social supply and demand, greater attention is paid to structural readjustment. Through planned distribution, lending instructions, guidance at the counter, and the regulation of relending, the People's Bank brought the readjustment of the production structure and the credit structure of specialized banks within the scope of the central bank's money policies. In addition to the traditional "magic weapons" of the central bank's deposit reserve, rediscount, and open-market operations, relending by the People's Bank was also fully utilized as a means of regulation in the light of reality. This became the most effective means of financial macroregulation and control by the People's Bank.

2. Practical difficulties currently confronting the financial reform.

Seen from the historical process of financial reform and development as a whole, financial institutions in China are still in a primary stage of quantitative growth. Many deep-rooted problems have not only not been fundamentally resolved but have aggravated the difficulties of reform in more ways than one. The salient problems include:

A. Deepening of the contradiction between economic development and monetary stability leaves the financial reform little room for maneuver. Since reform, money supply has been growing at 50-100 percent faster than economic growth. We have, whether consciously or unconsciously, followed a road of relying on the over-supply of money to boost economic development. Today, we are faced with the following difficulties: First, the increase in surplus purchasing power resulting from over-issuance of banknotes in the preceding stage posed a monstrous latent threat of inflation. It was estimated that the ratio between the monetary stock and commodities available in the market had dropped from 1:8 to 1:4 and that surplus cash stock, calculated on the basis of balanced economic growth and money growth, already

exceeded 70 billion yuan. Calculated in terms of surplus purchasing power in the broad sense, the picture was even more grim. At the end of 1990, savings deposits in the urban and rural areas totaled 703.4 billion yuan, and cash in the hands of residents amounted to 264.4 billion yuan, making a total of 967.8 billion yuan. This surplus purchasing power can be converted into investment in times of economic development and when the currency value is stable. However, in times of price rises, it may turn into a huge, concentrated, and blind force which is likely to adversely affect the market. Second, after the monetization of the economy has been completed in the main, the ability of the economy to absorb money becomes saturated. This reduces the scope of money growth and increases the correlation between money growth and price raises. Despite the fact that price raises slowed down somewhat during 1989 and 1990, the huge pool of money resulting from the abnormal growth of savings is developing into a self-recurrent cycle of cash input—savings growth—credit growth. This is another deep-rooted, latent danger of inflation. Third, since we have, over many years, relied on cash "transfusion" to boost economic growth, we have increased the dependence of the economy on money supply as well as the discrepancy between money growth and economic growth. In September 1988, we began our drive to improve the economic environment, rectify the economic order, and tighten money supply. The following year, the rate of industrial growth dropped from 10.4 percent in the first quarter to 5.6 percent in the third quarter. In order to activate the economy, we again relaxed our control over money supply in September 1989, with banks granting 149.2 billion yuan in loans between September and December. In spite of these efforts, industrial production still registered negative growth in early 1990. In the 10 months between September 1989 and June 1990, a total of 210.2 billion yuan were granted in loans, but industrial growth only rose by 2.2 percent in the first six months of 1990. The basic situation today is: In order to stimulate economic growth, we must inject more cash than in the previous stage but a substantial increase in loan is likely to trigger off a new round of inflation. This is a no win situation.

B. The bank credit constraint is softening while the free money supply system is gradually gaining momentum. In addition to the policies of simplifying administration, decentralizing power, and offering tax remission and profit concession to enterprises, a number of corresponding measures, such as the lending system and the replacement of financial allocations with loans, are also adopted. Regrettably, the financial reform has been unable to seize this opportunity to formulate a set of bank credit regulations suited to the development of the commodity economy, focussing instead on raising funds by all and every means to satisfy the excessive demand from various quarters and eventually ending up in the quagmire of the free money supply system. Since the assumption of centralized control over the circulating funds of state-owned enterprises in 1983, banks have become the sole suppliers of funds. Today, in addition to

their bounden duties to supply enterprises with the necessary funds for production and to organize commodity circulation, banks are also expected to guarantee credit needs for the purchase of farm and subsidiary products, holiday material reserves, technical transformation in enterprises, and other purposes. This has resulted in a situation whereby banks have to take care of financial deficits, activate the economy, ensure stability and unity, and meet everyone's needs.

C. The fact that credit funds are tight and have seriously hardened has weakened the actual potential of credit funds. Seen from the mobility of bank credit capital, 70 percent of the total bank credit funds were channeled to enterprises with the lowest turnover of circulating funds, while 15 percent had already been turned into bad debts, leaving only 15 percent at the free disposal of banks. According to a survey of 40,000 industrial and commercial enterprises by the Bank of Industry and Commerce, by the end of August 1990, about 65 percent of the additional loans to these enterprises were consumed by overstocking. According to a survey of industrial enterprises in Wuhan, by the end of July 1990, manufactured goods, goods shipped in transit, and sales proceeds receivable amounted to 4.454 billion yuan, or 42.28 percent of all circulating funds. These problems in financial system reform are a general reflection, in the sphere of finance, of the numerous problems confronting economic restructuring as a whole. However, where financial institutions are concerned, the most fundamental problems are: A built-in mechanism for the constraint of financial operations has not yet been formed because the microeconomic foundation of financial institutions has not been thoroughly transformed; the fact that financial markets have not been developed to a proper scale has enhanced society's dependence on banks for the supply of funds; the fact that financial macroregulation control has not been strong enough has resulted in an open-ended supply of funds on the macroeconomic level. Solution of these three basic problems will be the central tasks of financial reform in the 1990's.

II. Ideas and Suggestions for Financial Reform During Eighth Five-Year Plan and Next 10 Years

In line with the overall objective of establishing a new economic operating mechanism which combines the planned economy with market regulation during the next 10 years, the "Proposals for the 10-Year Program and the Eighth Five-Year Plan for National Economic and Social Development" adopted by the Seventh Plenary Session of the 13th CPC Central Committee put forward three major tasks for deepening financial reform. These should serve as the basic guiding thoughts and guide to action in financial reform during the Eighth Five-Year Plan and the next 10 years.

In the 1990's, financial reform will be carried out on the basis of a quickened process of commercialization, monetization, and credit reform in the economic sphere. Financial institutions have struck deep roots and the banking industry has been developed to a considerable

scale. Thus, in future financial reform, we must strive to remedy and eliminate existing problems and weak links in existing financial operations. More importantly, we must lay the necessary institutional foundation for a new financial system and promote transformation of the free-supply type of financial institutions into business-oriented ones while increasing their efficiency. The target mode of reform should be: To further improve and strengthen the mechanism of financial macroregulation and control to enhance the stability of financial operations; to further improve the organizational structure of financial institutions and extend the scale of the banking industry to form a financial organizational system with a basically rational structure; and to further open up and develop financial markets to create a new and flexible financing mechanism.

1. Further strengthen the macroeconomic regulatory and control functions of the central bank and improve and perfect the financial macroregulation and control system.

Financial macroregulation and control shoulders the multiple tasks of keeping the currency stable, keeping financial institutions under control, and regulating the economy. In line with the actual conditions in our country and the basic trend of economic and financial development during the next 10 years, we should pay attention to the following tasks in our efforts to strengthen the regulatory and control functions of the central bank and improve and perfect the system of financial macroregulation and control:

- A. We should firmly implement monetary policies with the maintenance of a stable currency value as their ultimate aim. A stable currency is the basis for the normal operation of the national economy. In our financial reform in the preceding stage, we adhered to a two-tier monetary policy which put economic growth before a stable currency. In the course of implementing this monetary policy, the need to maintain a stable currency was often subordinated to considerations for economic growth and monetary and credit plans already decided upon were often modified to keep pace with the rate of economic growth. According to statistics on the implementation of monetary policies from 1984 to 1990, credit issued exceeded the planned targets set at the beginning of the year in five years out of seven. While this could have been due to the preciseness, or otherwise, of the targets projected in the plan, a more direct reason was that economic growth always had the right of way. After economic improvement and rectification during the past more than two years, price rises and inflation have been slowed down on the surface and the meaning of keeping the currency value stable has come to be widely accepted by members of the society. However, we are still compelled to follow a chronic inflation policy. A case in point is that in 1990, credit issued totaled 273.1 billion yuan, 60.65 percent above the target projected at the beginning of the year. The task of keeping the currency value stable remains an arduous one. The reasons are: First, it takes a long time to gradually absorb

the surplus cash in the market, which already exceeds 70 billion yuan. Second, only when the currency value is stable will it be possible to steadily convert into investment the surplus purchasing power from the 703.4 billion yuan held in savings deposits. Third, pricing standards put into disarray during the previous round of inflation will require a fairly long period of currency stability to return to their former equilibrium. And fourth, only when the currency value remains stable for a considerably long period of time will it be possible to create a fine business environment for enterprises and form a built-in mechanism of self-restraint. Thus, in financial reform during the next 10 years, we must firmly and thoroughly shift the focus of monetary policy to the single most important objective of stabilizing the currency value.

The basic question to be addressed in implementing monetary policies with the maintenance of a stable currency value as their ultimate aim is adherence to scientific spirit, aloofness, and independence in the formulation of monetary policies. By scientific spirit, what we mean is the objective criterion upon which monetary and credit plans are based. Many problems and confusing issues which occurred in practice in the preceding stage, such as the acceptable rate of price hikes and factors affecting the velocity of currency circulation, were due to the lack of strict and scientific definitions. The rate of economic growth was also not substantiated by a set of projection standards worked out by the central bank. In order to enhance the scientific spirit of our monetary policies, we propose that a special organ be set up to do some long-term follow-up studies. At the same time, research bodies for the study of countermeasures vis-a-vis the central bank's monetary policies should be established in society or in institutions of higher learning or scientific research institutions. These bodies are to put forward counter proposals to the central bank's monetary policies as cross reference for financial macroregulation and control. By aloofness, what we mean is that the ultimate aim of the central bank's monetary policies must not only have the actual state of economic and financial operations as its basis, but must transcend reality. Particularly important is that care must be taken to avoid changing monetary policies already laid down on account of short-term and isolated economic problems. By independence, we do not mean that the central bank must become an "independent monetary kingdom." What we mean is that the umbilical cord between the formulation of monetary policies and actual political and economic trends must be cut and the central bank must be given ultimate decisionmaking power in the formulation of monetary policies. Implementation of these three measures is the basic prerequisite for the smooth formulation of monetary policies.

B. We should strengthen the vertical leadership of the central bank and reduce or eliminate administrative intervention by local governments at various levels. The basic characteristics of the central bank's regulatory and control system are as follows: The central bank, which

appears to be highly centralized, is in fact dismembered by local governments because organs of the central bank at various levels have to take orders from local governments at their corresponding level. Since the administrative officers of branches of the central bank are basically selected by the local governments, and maintain closer contacts with the local authorities than with headquarters, branches of the central bank cannot wholeheartedly implement the headquarters' monetary policies and have even become spokespersons for local interests in the central bank. Since the central bank is limited in its regulatory and control capacity, it has to rely on the local governments to implement measures aimed at managing finance and regulating the economy. In this sense, branches of the central bank are invariably dependent upon and subservient to the local governments. The relationship between the central bank and the government is one of unity in the long term but is contradictory in the short term. It is consistent on the whole but contradictory in many specific aspects. Strengthening the vertical leadership of the central bank means reducing or eliminating the short-term and specific conflicts between the central bank and the government and ensuring the efficiency and effectiveness of implementing central bank monetary policies. As a basic direction for the setting up of a macroregulatory system in the central bank, the most crucial task is to break down administrative barriers and set up branches of the central bank on the basis of economic zoning, to ensure effective macroregulation and control from the top according to actual conditions of economic operation. Only in this way can we fundamentally eliminate administrative intervention by local governments, guarantee the smooth exercise of financial macroregulation and control, do away with conflicts of interests between the central and local authorities in financial matters, and establish a dynamic, effective, and stratified system of financial macroregulation and control.

C. We should improve and perfect the mechanism of financial macroregulation and control and gradually effect the change from direct to indirect regulation and control. At present, financial macroregulation and control in China represents a kind of direct regulation and control, with the central bank chiefly relying on quantitative control by means of credit index and temporary regulation by means of relending to implement its monetary policies. This greatly limits the effectiveness of interest rate, rediscount, deposit reserve, and other regulatory means. In accordance with the overall plan to shift the focus of the monetary policies to the maintenance of a stable currency value and the vertical leadership of the central bank, and to gradually establish stratified financial regulation and control on the basis of economic zoning, it is necessary to carry out relevant reforms with respect to the central bank's mechanism and means of macroregulation and control. In the light of existing conditions, the central bank may consider extending bridging loans through borrowing and lending markets in major cities, with interest rates fixed in a flexible way according to money supply. This will serve

as an important supplement to planned regulation and control by the central bank, and create the necessary conditions for the central bank to exercise stratified regulation and control according to economic zoning. At the present stage, deposit reserves are just a means by which the central bank pools funds and are not flexibly made use of by the local authorities, or in terms of deposit duration and level. This being the case, we may consider allowing branches of the central bank to flexibly readjust their rate of deposit reserves according to specific conditions without affecting the total reserves handed over to headquarters. Following the development of the financial market, the question of the open-market operations of the central bank should also be put in an important place on the agenda. At present, we should concentrate on studying the merits and demerits of open-market operations, conditions of implementation, and other technicalities so as to give them a clear theoretical assessment.

D. We should strengthen leadership over the management of specialized banks. Under conditions of a pure market mechanism, central bank monetary policies are realized through conscious efforts on the part of commercial banks to change their behavior. This requires that commercial banks must have a strong profit motivation and built-in mechanism of profit constraint. However, as it takes time to change the organizational system of specialized banks and improve the overall quality of financial institutions, the strengthening of leadership over the management of specialized banks is a task not to be overlooked when strengthening macro-regulation and control over the central bank. The major measures are as follows: First, improve the planned management of credit funds by putting forward clear and specific suggestions regarding the scale, usage, placement, and structure of credit funds. At least 80 percent of the credit funds of specialized banks must be subject to the central bank placement policy to ensure the needs of key state construction projects. Second, strengthen the operational management of specialized banks and other banking institutions. In addition to drawing up detailed operational rules, clearcut systems and methods, as well as strict measures of reward and punishment, it is important that a unified code of action for the entire banking system be established. The People's Bank must strengthen its inspection and management of this code of action. Third, strengthen management over the screening of applications for bank credit by enterprises. Since specialized banks are typical policy banking institutions, recipients of credit issued by specialized banks must also have a strong policy bearing. Since "blanket lending" is a de facto practice in specialized banks, the task of re-establishing a systematic method for the screening of applications for bank credit by enterprises becomes most important and pressing. Fourth, increase the proportion of mortgage, discount, leasing, and other operations in the application of bank funds as a whole. Efforts should be made toward income-producing loans issued by specialized banks, in addition to state policy loans, to facilitate the shift from the current practice of

loan on credit to other forms of financing, such as mortgage, discount, and leasing, which have a close bearing on economic activities, to ensure the security of loans. Fifth, put into practice the system of sharing additional savings. While the hypernormal growth in household savings in recent years has become the primary source of credit expansion for specialized banks, it has also aggravated the imbalance between the ability of different specialized banks to supply funds. This has become a salient problem in financial macromanagement. There are two possible ways to solve this problem. One is to set up independent savings banks and the other is to put into practice the system of sharing additional savings. It does appear that independent savings banks are necessary in the long run but, at the present stage, the system of sharing additional savings is a more realistic option. This means taking the initial savings deposit as the base figure and sharing the additional savings without making any changes in the operating and control rights of various banks. The People's Bank will carry out planned distribution according to increases in total savings deposits each year and in light of policy lending tasks undertaken by individual specialized banks.

2. Steadily develop diversified financial institutions and reshape their organizational structure.

The basic state of the present organizational structure of China's financial system is as follows: State banking institutions have developed quite well but the scale and number of other financial institutions not directly managed by the state are still too small. In 1989, financial assets in the whole country totaled 1,590.2 billion yuan, over 84.7 percent of which were owned by four specialized banks. The number of employees in the banking sector totaled 2.1947 million, 89.96 percent of whom were employed by specialized banks. There were 468,000 financial outlets, 98.8 percent of which belonged to specialized banks. Seen from the history of financial development in the world's economically developed countries, and from the diversified demands on financial institutions after a higher level of economic development has been attained, the only way to give full scope to the overall functions of financial institutions on the economy is to establish an organizational structure in financial institutions which is comprehensive in scope and rational in structure. Financial reform during the Eighth Five-Year Plan and for the next 10 years is faced with a dual task: We must transform the internal components of existing financial institutions and, on the other hand, we must actively create conditions to promote the rapid development of new financial institutions and gradually develop a new organizational structure in financial institutions. In the transformation of existing financial institutions, we should attach importance to the following two tasks:

A. Run specialized banks as enterprises. In view of the fact that specialized banks are currently engaged in policy as well as commercial operations, we may consider taking the following steps to run specialized banks as enterprises. Step one: Manage policy operations and

commercial operations separately and keep a separate set of accounts for each. Step two: Separate policy operations from specialized banks so that the latter can be properly run as enterprises. Policy operations thus separated are to be assumed by the central bank. In order to provide the central bank with the necessary funds for policy tasks, efforts should be made to reduce relending to specialized banks. The latter should strive to strike a balance between their credit business and savings deposits. While postal savings will continue to be managed by the central bank, the central bank should also authorize specialized banks to set up thrift intermediaries with major cities as base points. All funds raised by these intermediaries, which handle business other than savings, will be used to meet policy lending needs. When policy operations are separated from specialized banks, efforts must be made to clearly define the contents and scope of policy operations and on no account must these be extended. Step three: As the Chinese economy becomes more commercialized and market-oriented, and following changes in the organizational form of industrial and commercial enterprises, we should consider readjusting the organizational form of specialized banks by reorganizing them into national, regional, and local banks. There is no question of the leader and the led between banks at these three different levels. The organizational structure of Chinese banks will thus correspond to the diversification of the national economy. While reshaping the organizational form of specialized banks, the setting up of specialized policy banks should also be considered.

B. Run existing trust and investment companies and different types of finance companies as banks. The basic implication of this task is to sever all direct links between these financial institutions and their higher authorities, turning them into new and independently managed banks. As these institutions are smaller in scale than specialized banks, they are less restricted by policies and more bound by credit ties with their clients. Thus, efforts should be made to take a bold stride forward in running commercial banks with Chinese characteristics and grope for experience in running specialized banks as enterprises. In addition, efforts should also be made to suitably extend the business scope of urban credit cooperatives set up in recent years and expand their scale through amalgamation, increasing their share capital and other means. In major cities where the necessary conditions are present, they should be transformed into share-holding banks.

The rise and development of new-style financial institutions will be the basic direction for the development of the banking industry during the next 10 years. According to the basic trend in economic development and structural reform in our country, new-style financial institutions will develop in the direction of more finely tuned services. In our financial reform, we should concentrate on creating more suitable conditions, guide and promote the birth and growth of new-style financial institutions, and form new conglomerates of financial institutions. As

the country becomes more open, the question of bringing in foreign banks should also be considered in the overall plan for the development of the banking industry.

3. Energetically open up and develop the financial market and strive to form a new pattern of financing as quickly as possible.

The monumental change in the product economy from "money following goods around" to "goods following money around" was a major success achieved in financial reform in the previous stage. How to create more credit carriers and set up more flexible and orderly financing bodies will be an important financial reform task during the next 10 years. In particular, the softening of credit constraints, the slowing down of capital turnover, and the widening of the discrepancy between credit growth and economic growth in recent years, have aggravated the urgency for opening up and developing the financial market and forming a new pattern of financing.

A. Strengthen the role of the financial market in absorbing and guiding savings funds and form a new mechanism for the conversion of savings into investment. Since the beginning of the reform, the basic pattern of the flow of funds has been as follows: Over 80 percent of the consumer surplus on residents' income is absorbed by banks as savings, which are then channeled into the production and circulation processes in the form of bank credit. The underlying problem in this pattern is that banks have little power of constraint over residents' savings, while the contrast between bank funds application and the demand of savings funds for high mobility, appreciation, and timely feedback is growing. From the perspective of residents, as the aggregate total of savings increases, residents have the actual ability to directly engage in financial investment and have a strong urge so to do. Thus, in our future efforts to strengthen the role of the financial market in guiding savings funds, we must take the following two-pronged approach. On the one hand, we must strengthen the institutional constraints of banks over household savings. The principal measures are: First, put an end to the current widespread practice whereby clients may treat their accounts "flexibly as both fixed and current deposit accounts" by prohibiting the withdrawal of savings deposits before maturity. Second, interest payable on overdue savings deposits which are by nature current deposits should be calculated according to the interest rate for current deposits. Third, energetically promote labor insurance, retirement insurance, and other mandatory and stable forms of savings. On the other hand, we must seize the opportunity to create more financial tools as investment media so that a fair share of funds can find their way into the economic process through direct investment. The advantage of this practice is that it increases the options for household savings and turns funds borrowing from a one-way intercourse with banks into something under the public constraint of the whole society.

B. Strengthen the monetary market system and its normative management and bring into play the role of the

financial market in promoting short-term financing. The existing short-term financing market is subject to the following restrictions: 1) interbank borrowing and lending markets are set up chiefly on the basis of administrative zoning and are directly subordinate to the People's Bank; 2) as the acceptance and discount of commercial bills are mainly dependent upon administrative means, and their development is helped by preferred funding and preferential interest rates, they have become a means by which enterprises obtain cheap funds; 3) necessary links are lacking between different interbank borrowing and lending markets, note discount, foreign exchange credit line readjustments, and other sub-market activities. In view of this, the basic direction for the development of short-term financing market in the next stage should be as follows: Interbank borrowing and lending should be replaced by lending and borrowing centers set up in major cities. The reason is that interbank borrowing and lending in China is not to meet temporary tightness in bank operations. It is also a means outside the credit plan for regulating the supply and demand of funds through the market mechanism. Toward commercial credit between enterprises, we should adopt effective measures to enforce the mandatory use of negotiable instruments and promote the transfer of commercial bills between enterprises through the banks. On this basis, banks should actively launch bill acceptance, discount, and rediscount business. As regards the readjustment of foreign exchange credit lines, banks should give appropriate support through the provision of funds in renminbi in addition to transactions closed by enterprises.

C. Steadily develop bond and securities markets and turn them into the primary channels for raising long-term construction funds. Financing through bond and share issues and the establishment of securities markets represent the highest form of the development of financial markets; they are also the fundamental objectives for financial reform during the next 10 years. At present, there are three powerful motivating forces for the development of securities markets: 1) treasury bonds, bonds for state key construction projects and bonds issued by key enterprises have become an important means for resolving the question of funds; 2) the rise of the Shenzhen stock market and the Shanghai Stock Exchange have produced a strong demonstrative effect in the whole country; and 3) residents and benefactors of economic interests have shown unprecedented enthusiasm investing in securities. In view of the present state of the securities markets, we deem the following to be our major tasks in the days ahead: First, we should conscientiously sum up the experiences from pilot projects trying out the enterprise shareholding system, gradually promote the experience thus gained, and guide the development of the joint-stock economy toward standardization. Second, funds needed for general technical transformation in contracted enterprises should gradually be brought onto the track of financing through the issuance of bonds. Third, as the the volume of

existing securities increases, we should step up the development of secondary securities exchange markets and pay attention to the training of stock brokers. And fourth, we should actively create conditions for the establishment of stock exchanges in major centers.

New Stock Market Administrative Council System

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[ECONOMIC REPORTER] in Chinese No 22,
3 Jun 91 pp 10, 111

[Text] Following the development of stock markets, the Chinese authorities are planning to enhance guidance in stock market management. For this reason, it was recently decided to establish the Stock Market Administrative Council System [gupiao shichang bangong huiyi zhidu 5140 4384 1579 1034 6586 0361 2585 6231 0455 1653].

The Stock Market Administrative Council will be convened by Li Guixian, member of the State Council and president of the People's Bank. The People's Bank, the Economic Restructuring Commission, the State Planning Commission, the Ministry of Finance, the State Property Management Bureau, the Tax Bureau, and the Foreign Exchange Administrative Bureau will each send a representative at the vice ministry, commission, or bureau level to serve on the administrative council.

It has been learned that the Stock Market Administrative Council will report directly to the State Council. Its main tasks are to decide on the main direction and policies of China's stock market development, to examine and approve the scales of stock issuance and management methods, and to coordinate the departments concerned. Experts regard the establishment of the Council a constructive measure which will benefit the healthy development of stock markets and help the promotion of this important reform measure.

FOREIGN TRADE, INVESTMENT

Problems, Strategies To Improve Textile Exports

91P30194

[Editorial Report] The 30 July 1991 issue of Beijing's GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL], the Chinese language journal of the Ministry of Foreign Economic Relations and Trade, carried on pages 50-53 an article titled "Prospects and Strategies for Shenzhen's Textile Exports." Author Ouyang Feng [2962 7122 7685] provided an overview of the international textile market, assessed China's major textile trading partners, then examined current problems facing Shenzhen's textile market and suggested strategies for overcoming them. His major recommendations included reducing China's degree of dependence on the U.S. market, using the West German textile market as a means to gain access to the East European market, and setting up subsidiaries abroad in places such as the Caribbean that do not face United States textile quotas

so that Shenzhen can supply them with raw and semi-finished products for further processing and eventual entry into the U.S. market.

Ouyang began by observing how the international market for textiles has become increasingly competitive over the past decade as the growth rate for world textile production has outpaced that for consumption. Noting that China is the world's fifth largest textile exporter and that textiles comprise a quarter of China's total exports, he went on to point out how during this same period, Western developed nations have "consistently" placed restrictions on textile imports from developing countries. He added, however, that since population growth and income in the years ahead will fuel the demand for textiles, there will continue to be a market for textiles.

Turning to China's major textile trading partners, Ouyang listed the United States, Japan, Hong Kong, and the European Community [EC] as the major importers of China's textiles and the United States, Japan, England, France, and West Germany as the major importers of China's ready-to-wear garments. He assessed these major partners as follows:

The United States: Citing U.S. statistics, Ouyang acknowledged that during the past few years China's trade surplus with the United States has escalated from \$6.1 billion in 1989 to what was reckoned to be \$10 billion in 1990, an annual increase of 64 percent. He then drew attention to the warning given by John Kamm, president of the Hong Kong-branch of the U.S. Chamber of Commerce who said that the U.S. Government might make reduction of its trade deficit with China a condition for renewing China's Most Favored Nation [MFN] status. In view of this warning, Ouyang said that China's textile industry "needs, to the extent possible, to reduce its degree of reliance on the U.S. market" and instead actively open up Soviet, East European, and other markets. He noted, however, that this would not be tantamount to abandoning the U.S. market. Next he cited projections made by the United Nations' Food and Agricultural Organization [FAO], saying that up until 1995, the U.S. market's demand for textiles will be very great and that in 1995 Americans will consume 6.37 million tons of fibers of which it will only have the capacity to produce 3.7 million tons or 58 percent. The United States, according to these projections, will therefore need to import 2.67 million tons of textiles and garments.

Japan: Ouyang began by noting that Japan has the highest revenue and consumption in the world and that it does not place quota restrictions on textile and garment imports. He also noted that Japan is the world's third largest importer of garments and the second largest importer of China's textiles and garments. He observed, however, that the majority of China's garment exports to Japan are low-grade, Western-style clothing items. Offering a reason as to why Chinese textile exports are not usually found in upscale Japanese department stores, he cited Japanese business circles who point to frequent

quality problems and lengthy goods delivery periods. Ouyang ended by indicating that Japanese interest in high quality silk garments will likely continue for many years and that the Japanese garment market is moving away from fitted clothing towards more comfortable, practical styles.

The EC: Looking at the EC market, Ouyang again cited United Nations FAO projections that show that by 1995, the EC will need to import 1.11 million tons of textiles. Stating that after the EC's economic integration in 1992 the large integrated market will both have tremendous potential and be deeply protectionist, he then listed several EC countries that imposed additional textile restrictions on China in 1990. Observing the strong West German market for textiles, Ouyang speculated that after the EC's economic integration in 1992, West Germany "very possibly could once again become the strong country of Central Europe" and said that China could use Germany as a "bridge" for gaining access to the East European market.

Hong Kong: Noting that the majority of China's textile and garment exports to Hong Kong are re-exported to different countries all over the world, Ouyang stated that China should pay attention to the tastes of all the ultimate end-users' of the textiles and garments it exports to Hong Kong.

Looking next at potential major markets for China's textile and garment exports, Ouyang said that the Soviet and East European markets could become major consumers and noted that Soviet annual average consumption is comparable to that of the entire West European market. Citing an "unofficial disclosure," he reported that in 1989 the Soviet Union had spent \$21 billion importing all varieties of textiles and that it now spends an annual \$46 billion importing garments mainly from member nations of the Council of Mutual Economic Assistance [CEMA] such as China, South Korea, and India. Further citing United Nations FAO projections, Ouyang reported that by 1995 East Europe's fiber consumption capacity will be larger than those of both the United States and West Europe. He concluded that although East European countries will have a large capacity for textile production, their shortages of raw materials and inability to produce good quality textiles will likely make them seek to import "good and inexpensive" cloth from Asia.

Finally turning to Shenzhen's textile export problems, Ouyang stated that since 1990, Shenzhen's textiles along with China's entire domestic textile market has begun to face the common problems of increasing Western trade protectionism, textiles prices that have reached their peaks, serious shortages of domestic raw materials, and shortages of funds. While acknowledging the Shenzhen textile industry's comparative advantages in raw materials supply and labor, Ouyang nevertheless described these advantages as "gradually weakening." He blamed this on the rising prices of domestic raw materials which rose on average 40 percent in 1990 and some of which

are now higher than comparable prices found in India or Pakistan. He also cited Shenzhen's failure to keep pace with foreign textile industries' constant technical upgrading and increasing levels of automation. To overcome its current problems, Ouyang made the following five recommendations:

1. Shenzhen should maximize the advantage of its proximity to Hong Kong. Shenzhen's textile industry should cooperate closely with Hong Kong businessmen by offering the advantages of cheaper labor and factory rental costs in exchange for access to current information on the world textile market, knowledge of advances in garment processing technology, and the opportunity to benefit from Hong Kong businessmen's good reputation. According to Ouyang, Shenzhen textile factories could receive orders from Hong Kong businessmen, contract out the rough machining work to factories in the interior, do the more refined processing themselves, and then deliver the finished products to Hong Kong.
2. Shenzhen should do all it can to attract more direct foreign investment, especially from Hong Kong, as a means of acquiring the technology necessary to produce higher quality goods. Additionally, while creating its own famous brand products, Shenzhen should also try its best to purchase famous foreign brand trademarks and manufacture high quality fashions.
3. Shenzhen should actively develop products and markets that do not face quota restrictions. Noting the considerable capacities of nonquota markets such as Hong Kong, Japan, the Middle East, Southeast Asia, East Europe, and Latin America, Ouyang suggested that Shenzhen continue to increase exports to Hong Kong as with a few exceptions such as sheets, most textile exports to Hong Kong are not subject to quotas and Hong Kong itself enjoys the most generous textile and garment quotas from other countries. Ouyang also suggested that well managed textile mills set up subsidiaries abroad in places such as the Caribbean where labor is cheap and whose textile exports to the United States are not subject to quotas. According to Ouyang, Shenzhen textile mills could send textile raw materials and semi-finished products to these subsidiaries for further processing and finishing before being exported to the United States.
4. Shenzhen needs to pay more attention to market research and increase its ability to closely monitor new international trends in textiles and garments. Ouyang reported that at a recent annual meeting of international textile experts, it was mentioned that "quick response time and fast delivery" are the current buzzwords.
5. Lastly, Ouyang advised close observation of each country's new trends in textile import legislation in order to be able to adopt swift responses, avoid precipitating protectionism, and derive maximum benefits from any foreign laws and tax regulations that are favorable to China. He pointed out that Norway has already eliminated its former quotas on Chinese textiles and that Sweden was to follow suit on 1 August 1991. He also

observed that Mexico has reduced its tariffs on some Chinese textiles from 100 percent in 1986 to a current 20 percent and that New Zealand is gradually eliminating many of its import license restrictions on Chinese textile imports. Ouyang's final statement was that, "naturally, there are also a few countries increasing their restrictions on our imports such as rescinding MFN status, raising tariffs, and reducing quotas."

AGRICULTURE

Ningxia Livestock Production Reaches Record High

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31 Jul 91 p 1

[Article by Wang Guanglin (3769 0342 5259): "Stabilizing Policies and Intensifying Services: Ningxia Livestock Production Reaches Record High"]

[Text] A gratifying achievement of all-round growth in livestock production has been made in Ningxia Autonomous Region this year. In the first half of 1991, the slaughter of sheep and poultry, and meat and milk output reached a record high, and was the 13th bumper harvest year. Based on statistics, by the end of June, the slaughter of sheep and pigs increased by 26.9 percent and 5.3 percent respectively over the same period in 1990. The gross meat production of pork, beef, and lamb was 33,614.2 tons, an increase of 22.1 percent over the same period last year. Milk output reached 21,492.6 tons, an increase of 31.2 percent over the same period last year. Chicken and egg output also saw a big increase over the same period last year.

Since the beginning of 1991, party committees and governments at all levels in Ningxia have further stabilized and perfected policies to protect and develop livestock production. From a variety of aspects, such as capital, fodder, technical services, they fully supported livestock production. To protect the interests of specialized households for milk production, the departments concerned increased the milk procurement price, which greatly aroused farmer enthusiasm to raise cows. Farmers from Wuzhong and other cities and counties bought 2,000 cows in from other provinces, which increased the number of dairy cows in stock 19.1 percent over the same period in 1990. Some counties and cities also increased investment in livestock farming. To help peasants develop livestock farming, Wuzhong City and Tongxing County respectively invested 3 million yuan and 500,000 yuan in loans. After several continuous bumper harvest years in Ningxia, fodder prices have dropped somewhat. Market prices for meat, eggs, milk and other livestock products were higher than last year, and farmers have shown greater enthusiasm. Based on a survey, in the first half of this year, income from every kilogram of pork, live chicken, milk and eggs increased respectively 10.3 percent, 21.9 percent, 24.4 percent and 18.1 percent over the same period last year. Another wave to raise chicken, cows and pigs has been raised.

To develop livestock production, many scientific and technical personnel in livestock at all levels have gone to the front line of production, and intensified their technical services. According to incomplete statistics, over 60 percent of scientific and technical personnel in livestock have gone directly to villages and households to help farmers spread and apply advanced feeding techniques, supply fine breeds, accelerate slaughter cycles, and increase the commodity rate and economic returns.

Scientific and technical personnel in the Yinnan Area has made notable achievements in implementing contracts to spread techniques, such as improving breeds, preventing diseases, and fattening lamb. In Zhongwei County, scientific and technical personnel made contracts on a large scale for chicken farms, model villages to raise chickens, and specialized households to raise chickens. For the first time, the number of chickens in stock was over 1 million.

Investigative Report on Status of Henan Christians

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[SOCIOLOGICAL STUDIES] in Chinese No 3,
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[Article by Chang Yongqing (1603 3057 7230): "Investigative Report on Status of Christian Activities in Rural Henan"]

[Text] *In recent years, Christians (in the Chinese context, this term refers to all evangelicals, Protestants, and other non-Catholic Christians) have become quite active in some Chinese villages. In order to study this social phenomenon in depth, this article has drawn upon the materials acquired in a study of the villages in three counties in southern Henan Province and provides hard facts in describing Christian activities in recent years in these villages. This article also uses theory from the disciplines of sociology and religious studies to carry out a thorough analysis of religion in the area, including the laws which govern its development, its organizational and personnel structure, and its systems and activities, thereby arriving at an objective evaluation of its societal role. The article also considers the historical, economic, and social backgrounds of the local villages in an effort to further explore the factors which have spurred the spread of Christianity in these local villages.*

The author, Chang Yongqing, was born in 1948 and graduated in January 1982 from the Central Nationalities Academy. He is currently an assistant researcher at the Rural Development Institute at the Chinese Academy of Social Sciences. The current focus of his research is on regional economics, rural social structures, and rural social organizations. He has published over 20 articles, including "Examining the Development Strategies for China's Special Economic Zones From the Perspective of the Global Economy," and "A Discussion of the Reform of Governmental Structure at the Township Level." He has also published various monographs, including "High Technology and Society."

In recent years, five religions (Evangelical Christianity, Catholicism, Buddhism, Taoism, and Islam) have achieved varying degrees of development in China's countryside. The development of Christianity has been especially strong. According to incomplete statistics, they are about one million Christians in Henan Province. In March and April 1990, this writer went to Xinyang, Queshan, and Suiping counties to observe Christian activities. I have had talks with local government departments and cadres in charge of religious affairs, the secretaries of various village party branches, and with the leaders of various churches. A relatively comprehensive and thorough study was carried out at three different levels (county, township and village), and Christian activities were also examined from the internal perspective of various churches. This article attempts to provide readers with a sociological analysis of the materials which have been gathered.

I. The Overall Status of Christianity in the Localities Studied

Since Liberation, Christianity (also known as "the new religion") has been the fastest growing among the five religions which are popular in the countryside, and it has been the hardest survivor. Two separate analyses of religion in Xinyang county, one carried out before liberation (in 1949) and another carried out afterward (in 1989), bear out this fact. (see Table 1)

Table 1. Status of Religion in Xinyang County in 1949 and 1989

	number of church members	1949		1989
		number of activity sites	number of church members	number of activity sites
Christianity	4000	15 churches	10,000	3 churches
Catholicism	1800	1 church	30	none
Islam	800	5 mosques	1800	2 mosques
Taoism	10-20	none	4-5	1 temple
Buddhism	none	none	4-5	none

According to Table 1, there were approximately 2.5 times as many Christians in 1989 as in 1949, while the number of Catholics and Taoists declined. There were 60 times as many Catholics in 1949 as in 1989. There was only a slight increase in the number of Buddhists. Muslims also expanded their ranks more slowly than Christians did. Because Islam is the religious faith of the local ethnic Muslim minority, it cannot develop any faster than the Muslim population, while Christianity can draw from a much broader base of adherents. Therefore it is estimated that Islam in the future will not develop as fast as Christianity.

The fundamental reason why Christianity has greater development potential than other religions is that it is more in step with society and can more easily satisfy the spiritual requirements of believers. Religious activities can be carried out in the most rustic of circumstances. Unlike Buddhism or Taoism, for which a believer must become either a monk or vegetarian, it has few prohibitions and its doctrines are relatively easy to understand. Unlike Catholicism, which requires a regular meeting place (the church) and full-time priests, a religious gathering can be held in a Christian's courtyard or house, and any part-time religious practitioner can run the affair. Furthermore, Christian church activities are more flexible in form; a few people can organize a congregation and carry out simple religious ceremonies. It does not have the rigorous ecclesiastical hierarchy or the elaborate rituals of Catholicism. The reason why Christianity is more attractive than Catholicism is because it holds that "faith is the most important thing." Believers can communicate directly with God and do not have to go through a professional religious practitioner. This makes it easier for believers to express their religious feelings

and deepen their religious experiences. It is apparent that the Christian faith is easier for the religious masses to accept than the Catholic faith.

In local villages, the development of Christianity in recent years has been marked by three characteristics. First, believers account for a significant portion of the overall population. At the county level, the percentage of the population accounted for by believers differs from one jurisdiction to the next. The proportion is relatively high in Xinyang county, where there are 10,000 believers in a population of 951,000 (about 1.1 percent). In Queshan county, where there are 3,230 believers out of a population of 536,000 (about 0.6 percent), the proportion of believers is lower. In townships where believers are numerous, the proportion of believers in the population is greater. There are 560 believers among 25,723 inhabitants of Suiping County, Chaxiashan township (about 2.2 percent). The greatest concentration of believers there is in Tushan village, where there are 70 believers out of a population of 2,753 (about 2.6 percent). Second, church activities are distributed over a wide area. There are 46 such locations in 15 of the 18 townships in Queshan County. Before the implementation of the "fixed activity site" policy, there were church activity sites located in six of the 13 villages (administrative villages) in Suiping County, Chaxiashan township. Third, the number of believers has risen quickly. This was demonstrated quite clearly from 1982 to 1987 at the church activity site located in Suiping County, Chaxiashan township, Tushan village. In 1982, there were 50 or 60 believers at this activity site; by 1983-84, the number had risen to about 100; by 1985-86, the number of believers had risen to more than 200, which was where it stood in 1957 (religious activities at this site were interrupted from 1958 to 1981). By 1987, the number of believers at this site exceeded 320.

It has been in the past 10 years that Christianity has developed in the local countryside. From 1958 to 1979, the party's policies on religion were not carried out correctly due to the influence of leftist errors, particularly the extreme leftism of the Cultural Revolution. Since the Third Plenary Session of the 11th CPC Central Committee in 1979, the party has repeatedly called for the implementation of its policies on religion, and Christian activities have gradually resumed and developed. From 1979 through 1989, Christianity has gone through two developmental phases in the local countryside. From 1979 to 1984, Christianity went through a phase of natural development. As policy on religion was gradually implemented, Christians gradually proselytized the faith in order to gain the believers, and in townships and villages where the proportion of believers was relatively high, they established church activity sites and the faith spread relatively quickly. Because local governments did not act promptly to regulate the situation, the spread of Christianity in rural villages was characterized by a very strong overtone of natural development. Church activity sites took three organizational forms. 1) Some were set up as a result of the proselytizing efforts of part-time or

full-time religious practitioners. 2) Others were offshoots of the first type of activity site. 3) Still others were set up as a result of spontaneous proselytizing efforts of some individual. Church activity sites of the first and second types were run by university graduates who had been trained in Christian theology or by older believers who had a considerable degree of knowledge in the Christian faith. These two types of church activity sites have basically been able to carry out religious activities in accordance with fundamental Christian regulations. Most of the pastors of the third type of site have neither received any sort of orthodox religious instruction, nor have they been recognized by any Christian church. Their understanding of Christian doctrine is foggy, and their church activity sites are not subject to regulations, as is the case with the first and second types of sites. They spring up when a number of people with a desire for religious faith gather together, and they generally have little contact with the ordinary Christian church. They are quite independent.

For Christianity in the local countryside, 1984 to 1989 was a phase of rectification and development. Beginning in 1984, in order to strengthen their regulation of Christian affairs, county and township governments implemented the "three fixed" policy ("fixed site, fixed territory, fixed leader"). Under the guidance of the relevant government departments, many counties established either a Christian "three self" patriotic movement committee ("self-ruled, self-sustaining, self-propagated") or a preparatory working group. The concrete method of implementing the "three fixed" policy was to choose one of the largest church activity sites within a particular territory and merge smaller surrounding sites into it, and to draw up territorial boundaries for proselytizing activities. A group of believers chooses a leader who establishes a church affairs team which, after inspection by the county level Religious Affairs Regulatory Bureau, is formally approved and established. Any church activity site lacking this approval is an unofficial site. As for the standards by which to decide the approval of church activity sites within a certain territory, the governments have acted flexibly. In areas with relatively few believers, a single church activity site has been established for several neighboring townships. In areas with relatively many believers, two or three different sites have been approved within a single township, or these sites have been merged to form one site. There is one site in Suiping county, Chaxiashan township. In this township, the Tushan village church activity site, with 320 members, was the largest of the six activities in the township, but after the rectification, the six activities were consolidated into the Tushan village site. Because of the great workload and the small staff, many problems have been encountered during the implementation of the "three fixed" policy. Approval of sites in different counties has progressed at different rates. Of the 46 original sites in Queshan County, only two have been approved, one in Panlong township (within the county seat) and the other at Humiao township, Cangji village. Each of these has about 200 believers. Of the 62 church activity sites in

Xinyang county, 23 have been approved, and they have a total membership of 5,072. There are still 39 which have not been approved. During the period of rectification, the proselytizing of Christianity proceeded rapidly.

The attitude toward implementation of the "three fixed" policy has differed from one church activity site to the next. There are basically three attitudes. 1) The majority of sites support the policy, and many have actively sought to have their sites approved. When the policy was being implemented in 1984 in Xinyang county, 26 sites applied for approval, but because of difficulties in our work, only 11 have been approved, and there are 15 still unacknowledged. 2) A minority of the sites are opposed to this policy, and a few openly flout it. Among 39 unofficial sites in Xinyang county, some sites are willing to apply for approval and insist on remaining independent. After one site implemented the "three fixed" policy, 300 of its original 400 believers were drawn away by unofficial sites. These unofficial sites claim that "church activity sites which implement the 'three fixed' policy do not practice true Christianity." 3) Some sites adopt a middle-of-the-road position, neither supporting nor opposing the "three fixed" policy. Due to various difficulties, they are unwilling to be merged into large activity sites. There is a site in Suiping County, Chaxiashan township where they continue to insist on their own activity site because the Tushan village site is far away, which makes it difficult for old people or women to attend. Nevertheless, they recognize the legitimacy of the Tushan village activity site. There are about 100 believers at this site.

II. The Organization, Systems, and Activities of the Churches

As Christianity has been proselytized in the local countryside over recent years, it has established its own organization in order to facilitate activities and proselytizing in the local countryside. As with other social organizations, the establishment of Christianity as an organization has seen the rise of its system. Organization, system, and activities are the key factors in the spread of Christianity in the local countryside.

The organization of Christianity in the local countryside is relatively simple. In general, the church activity site is the grassroots organizational unit. The leaders of the various church activity sites which have implemented the "three fixed" policy elect a county-level Three Self Patriotic Movement Committee or preparatory committee. It is not a higher level church organization but a religious organization based upon a certain geographical area. There is no regular contact between the various church activity sites, and they are independent of each other. The sites are of many different sizes. In Xinyang county, a large site has over 1,000 believers and six or seven leaders, while a small site will have only 20 or 30 believers and one or two leaders. The average site has over 100 believers and three or four leaders. In Queshan County, a large site has more than 200 believers and small site only 10 or 20 believers. A church activity site

can be either a church or a private home. Currently, there are very few sites located in churches. There is only one church in Queshan County (located in Panlong township). This church, which had been appropriated for other uses, has now been returned to the church for their activities, and 100 or more people can congregate there. There were originally 15 churches in Xinyang county, but only three are left now, while the rest have either been appropriated or destroyed. Due to the lack of churches, the great majority of worship sites are in private homes. They tend to be medium or small size meetings, and they are generally located in rural villages. Sites at which religious activities are carried out in a church are generally larger and located in an urban area.

The internal structure of sites in the local countryside is also relatively simple. Every church activity site has only two layers: the leaders and the believers. Several leaders make up a church affairs team which serves as the leadership organ for that site, and no further organizational structures are set up beneath the church affairs team. Regular believers are not divided into specific organizational units. At sites where the "three fixed" policy has not yet been implemented, a few leaders also form a core leadership organ similar to the church affairs team, although the nomenclature is not so standard. If there are only one or two leaders, these individuals exercise direct leadership over the believers. Church activity sites in the local countryside have not formulated rigorous systems. The systems now in place are simply based on unformalized agreements, and are totally lacking in regulations. Every Sunday, the believers congregate of their own accord at the church activity site, where they are informed by the church affairs team or by an individual leader if there is anything to report. Preliminary resolutions are put forward at the meetings so that believers can discuss relevant church affairs work. The church affairs team or individual leaders do not generally have contact with the believers and it is not necessary to rely upon conventional organizational structures to inform the believers of their resolutions or to carry out routine work. In general, the religious faith of believers is quite strong, and they are well organized. In good weather or bad, as long as there are no major affairs to attend to, they regularly go to the church activity site to worship. Since the site at Suiping County, Chaxiashan township, Tushan village implemented the "three fixed" policy, there have been 493 believers at the site, of whom 80 percent are able to participate in worship activities every week. When a believer joins or drop out of a particular site, there is no registration procedure. If you come, you are a believer; if you fail to show up for a long time, you have dropped out. At the church activity sites, communication between the leadership and the believers is very informal.

Christian activities in the local countryside are relatively flexible in form, but traditional patterns have basically been maintained. At the busiest part of the agricultural season, worship activities are suspended for one or two Sundays and are held twice a month instead. Under normal circumstances, church activities take place every Sunday whether there is a state holiday or not. The

church activity sites lead the believers in celebration of traditional Christian holidays. Christmas is the most important one, and the lunar new year and other traditional Chinese holidays take a back seat to it. The leaders of a church activity site meet several times each month to discuss church affairs, and they meet even more frequently when something important is going on. Because regular Christian theological education was interrupted for a long time, there is a universal shortage of full-time religious practitioners at sites in the local countryside. There were seven or eight full-time practitioners in Xinyang county prior to the Cultural Revolution, but there is not a single one now. In order to resolve this problem, site leaders have conducted various religious activities themselves, while preachers propound upon religious doctrine. Some of these part-time preachers also take responsibility for leadership work while others only preach.

The social make-up of the believers in Christian organizations in the local countryside is characterized by what we call a "three few many, three numerous" situation. Middle-aged and young believers are few, while old believers are numerous. Males are few, while females are numerous. People with a relatively high level of education are few, while illiterates and people with a relatively low level of education are numerous. Our statistics on the believers at the site in Suiping County, Chaxiashan township, Tushan village, reflect this fact. (see tables 2, 3, and 4)

Table 2. Age Distribution of Church Members

age bracket	number of people	percentage
under 20	14	2.8%
20-50	186	37.9%
50-60	107	21.4%
over 60	186	37.9%
totals	493	100%

Table 3. Gender Distribution of Church Members

gender	number of people	percentage
males	79	16.1%
females	414	83.9%
totals	493	100%

Table 4. Education Distribution of Church Members

level of education	number of people	percentage
senior high school	7	1.42%
junior high school	72	14.6%
elementary school	154	31.24%
illiterate	260	52.74%
totals	493	100%

In addition, there is a second way in which the believers at the sites in the local countryside are characterized by a "three few, three numerous" situation. Urban residents

are few, while rural are numerous. Inhabitants of the lowlands are few, while inhabitants of mountainous districts are numerous. Rich people are few, while poor people are numerous.

The motives of the believers in seeking out religion are many and complex. In general, there are five basic motives. 1) Some people have illnesses which they have long been unable to cure. 2) Some people meet with insurmountable problems, such as natural disasters, bad luck, and unstable family lives. 3) Some people are curious. 4) Some people suffer from poverty and need a source of spiritual and material support. 5) Some people have been raised in religious families.

As for the leadership of Christian organizations in the local countryside, middle-aged and young leaders account for a significant proportion, and they sometimes outnumber older leaders. There are more male leaders than female leaders, though sometimes their numbers are even. Leaders with a high level of education account for a significant proportion, and they sometimes outnumber leaders with a low level of education. In general, leaders have small families, relatively high incomes, and enough energy and financial resources to be able to devote themselves to their church work. Under of the leadership of the top leader, the other leaders carry out a division of responsibilities. These leaders are generally believers who have been in the church for a long time. They are very good workers and have some particularly valuable skill. They enjoy a high reputation among the believers.

However, there are some differences between the leaders of church activity sites where the "three fixed" policy has been implemented and sites where this policy has not been implemented. In Xinyang county, leaders at sites where the policy has been implemented are generally between 35 and 55 years old, but they are sometimes more than 55 years old, and they have generally attained a junior high school education or less, although some individuals have attained a senior high education. Their organizational skills are relatively weak. The leaders of sites where the "three fixed" policy has not been implemented are generally in their 20's, but some are over 30 years old. They have generally attained a junior high school education or higher, although some have only attained a very low level of education. Their organizational skills are relatively strong.

Through interviews, this writer has gained a relatively clear understanding of the members of the church affairs team at the church activity site in Suiping County, Chaxiashan township, Tushan village. This study has afforded a deeper understanding of the social make-up of the leaders of Christian organizations in the local countryside. (see table 5)

Table 5. Members of the Church Affairs Team in Chaxiashan Township, Tushan Village

surname	age	sex	level of education	reason for believing in religion	years in church	duties	occupation	family	
								number of members	income level
Ji	82	female	privately tutored		50	overall responsibility	no occupation	6	medium
Li	40	male	junior high school	illness	10	education (teaching classes)	peasant	5	medium to high
Hou	66	male	illiterate	illness	40	administration (logistics)	peasant	3	medium to high
Qin	72	male	privately tutored	illness	50	education	peasant	2	medium
Wang	37	female	senior high school	family strife		treasury and music	peasant	4	medium

Within church affairs teams, financial questions are the principle cause of conflict among the leaders. In line with the principle of "self-sustenance," church activity sites rely mainly upon volunteer donations from believers for their funding, and the question of how to use these funds has frequently led to conflict. Conflicts also arise between different sites because the more believers a particular site has, the more money it has. However, such conflicts occur with less frequency at sites which have implemented the "three fixed" policy because the government has set territorial boundaries on their proselytizing activities.

III. The Societal Role of Christianity in the Countryside

Moved by the policies of the party on religion and on the countryside, the great majority of Christians in this area have participated actively in the movement to construct a socialist material civilization and socialist spiritual civilization. First, they have earnestly carried out state tasks as well as work assigned by local governments. Churches take advantage of preaching activities to educate the believers, mobilizing them to sell to the state the grain and oil for which they have contracted, to turn over taxes, and to turn over retained money [funds collected by the cooperative for social services]. They also urge their members to promptly carry out compulsory production plans. The churches also urge believers to carry out birth control. The believers have basically been able to achieve these tasks. Second, they actively engage in various voluntary public works projects. The churches have their believers donate money for road and bridge construction, reforestation, etc. Third, they take responsibility for some social service work. At the urging of their churches, Christians voluntarily donate funds to needy believers, provide support to orphans, widows, and old people, and visit nursing homes. These activities to a certain extent have lightened the burden of the state. Fourth, they engage in meaningful social activities. Believers at the church activity site in Queshan County, Panlong township sent gifts to the soldiers at the front

during the war with Vietnam, and they donated funds for the Asian Games. These activities are beneficial to the state and society, and they increase the patriotism of believers and the level of the people's ideological awareness. Fifth, Christians make use of their special skills to establish economic entities which provide services for society. The church activity site at Suiping County, Chaxiashan township, Tushan village set up a construction brigade in which 32 believers with construction skills make use of agricultural slack time to build housing. This construction brigade has been extremely popular with the local people. It has built housing free of charge for believers in financial difficulties, and it has charged less than other construction brigades when building houses for the population at large (including houses for non-believing and wealthy peasants). Furthermore, because they do not allow their believers to smoke or drink alcohol, the economic burden upon consumers is reduced by 20 or 30 percent. Since this construction brigade was established in the spring of 1987, it has built 28 houses (each house consisting of three rooms), of which 18 have been for believers.

Christianity has also had a positive impact in terms of the legal system and morality. Because of Christianity's Ten Commandments, as well as the requirements of the church, believers are basically able to respect discipline and obey the law, and they very seldom steal or rob. Furthermore, believers do not hit or curse people. They are very friendly and honest, and have a high level of moral refinement. Their model adherence to the legal system and morality has left a deep impression upon people. This has greatly facilitated efforts to establish the legal system in the countryside and to instill good social customs.

However, we must neither underestimate nor overestimate the role of Christianity in the construction of "the two civilizations" in the countryside, much less can we look only at its positive impact while ignoring the negative side. We must maintain a clear understanding

in this regard, otherwise we will interpret matters in a one-sided manner and will arrive at improper conclusions.

Because there has not been any fundamental change in the social ideological nature of religion, the motivation of religious believers in participating in the construction of the two socialist cultures is characterized by strong religious overtones.

First, the purpose of Christian churches in having their believers carry out voluntary public works projects and in participating in meaningful social activities is to "glorify the Lord" and "spread the word," thereby expanding their influence. Furthermore, due to the influence of religious thoughts, when believers participate in these activities, they believe they are acting in accordance with their religious precepts, and that it is God's will. For this reason, we cannot conclude that "religion is completely compatible with the socialist spiritual civilization" simply because Christian churches have engaged in a few beneficial activities. Second, the social services provided by Christians are primarily intended to serve other believers, and the same is true of the economic entities which they have established. Actually, the amount of mutual economic assistance offered within a church is not great. A church will not have its members help somebody out unless that believer's family has run into particularly great difficulty, and even then the amount raised is not so much. Furthermore, although Christians have a strong grasp of the legal system and strong morals, they are fettered by various religious ideas, such as "loving your enemy" and "loving everyone." They dare not engage in the struggle against bad people who break laws and violate moral standards. Clearly, sweeping things under the rug in this way is not conducive to the maintenance of social order and stability. Third, some church activity sites carry out activities with great frequency, interfering in the agricultural and sideline production of believers. Some sites bring too many people into the church in a given village, which affects social life and makes it impossible to hold village meetings. Relations in some households are soured when parents oppose their children's intention to participate in religious activities. Of course, such phenomena are only isolated incidents, but they do reflect the negative impact of Christianity upon efforts to construct the two civilizations. In general, the main negative impact of Christianity is that when people meet with natural disasters or man-made hardships, religion would have people seek solace from spirits, remain content with the status quo, and accept their fate. It does not encourage people to use courage and wisdom to overcome natural and social difficulties.

It is worth noting that if Christianity were manipulated by bad people, Christian organizations would become instruments for swindling and other evil activities, and could pose a great political threat. Leaders at some church activity sites in Xinyang County have openly displayed a defiant attitude, refusing to talk with village cadres and spreading the reactionary idea that "believers

will triumph and non-believers will perish." Although such cases are extremely rare, they cannot but put us on guard.

IV. The Development of Christianity: Its Causes and Its Prospects

Since liberation, Christianity has grown at a rapid rate in the local countryside. The reasons for this are rooted in history as well as in the current situation. In concrete, there are four main reasons.

1. The traditional faith left behind by history continues to have an impact. Christianity was first brought to this area during the late Qing Dynasty and early republican period by foreign missionaries who came to Queshan County and established the church in Panlong township. In 1935, the pastor Li Zizhen went to proselytize in Suiping County, Chaxiashan township. He gained 40 converts there. The Yang sisters, a pair of local people, later led religious gatherings in private homes. The church activity sites now found in Panlong township and Tushan village have been built upon the foundation of the earlier believers and organizations. Some young believers have always believed, having been raised in religious households, from which it is apparent that historical tradition is one of reasons why Christianity has developed this area ever since liberation.

2. Natural dissident forces have not completely disappeared. Studies indicate that the level of economic and social development in this area is relatively low, which provides fertile ground for the development of Christianity. The agricultural productive forces are not highly developed. People do not make wide use of agriculture machinery, irrigation facilities, improved grain varieties, chemical fertilizers, or agricultural plastic sheeting. Their capacity to fend off natural disaster is not great, and to a great degree they are dependent upon the weather for their food. Furthermore, township enterprises have not developed in the local area. The economy of the countryside is still based upon agriculture. The industrial output value of Suiping County, Chaxiashan township in 1989 was 4.569 million yuan, which was only 21.4 percent of total industrial and agricultural output value (21.389 million yuan). Because both industrial and agricultural production are relatively backward, the local standard of living is not high, and relatively large numbers of households live in poverty. Queshan County is one of the counties in Henan Province which have been targeted for special poverty assistance. Average net per capita income in 1989 was 290 yuan. Xinyang County is one of the wealthier counties in southern Henan Province, but in 1989 the average net per capita income among peasants there was only 416 yuan, which was still far below the national average. The backward economic situation has inevitably limited the development of health facilities, so the people have great difficulties in this respect. Although Suiping County, Chaxiashan township has one township health clinic, 13 village health stations, 11 full-fledged doctors, and 41 township and village doctors, it is still impossible to treat

many serious diseases because treatment technology is very backward and medical equipment is very rudimentary. Furthermore, many patients do not have enough money to be treated because medical expenses are too high. According to studies, work to popularize science in the local countryside has hardly even started, and the relevant departments only place importance upon educating peasants in the use of agricultural technology. There are still many illiterates in the local countryside, and junior high school education has not yet been extended to all people. In the face of natural disasters, various personal difficulties, and incurable diseases, people find themselves confronted with insurmountable problems. At the same time, the low level of education limits their understanding of natural forces, so they call upon spirits for protection.

3. Because the socialist economic and political system and the various legal systems are not yet sound, a series of social problems has risen, and they have provided religion with an opportunity to develop. Studies indicate that there are three social problems in the local countryside which are very difficult to resolve. First, corruption, declining moral standards, and irrational personal relationships have prompted some people who are psychologically wounded to become pessimistic and turn their back upon the world. When they fail to find needed support in society or within their homes, they may very possibly seek spiritual solace in a merciful God. Second, bureaucratic practices among rural grassroots cadres are rampant. They are completely unconcerned with the hardships of the people and they go about their work with a careless and irascible attitude, which visits tremendous spiritual suffering upon the people. The silently suffering masses place their hopes in Christianity and seek relief in spiritual faith. Third, in the face of ever changing and unpredictable market risks, some peasant households which lack business skills are bound to feel attracted to a fatalistic religious notion which holds that "man proposes but God disposes."

4. Policy on religion has not been faithfully carried out and has become a weak link in ideological and political work. During the course of this study, this writer has discovered that there are two erroneous tendencies among grassroots cadres in the local countryside regarding their understanding and enforcement of policy on religion. Because they were subject to the influence of leftist ideology for a long time, some local cadres feel that Christianity is a type of feudal superstition, has no positive role in society, and that churches should not be allowed to establish church activity sites. Their attitude toward implementation of policy on religion is uncooperative. Some township governments in Xinyang county have continually refused to approve applications for establishment of official activity sites. This has been frustrating to church activity sites which have shown a positive attitude in adhering to the "three fixed" policy. This has actually had a very harmful effect. In criticizing the religious policies of the Paris Commune, Engels pointed out that efforts to stamp out religion can only

have a counterproductive effect. The fact that religion has developed too fast in some districts in recent years is closely related to the serious destruction which resulted from the extreme leftist line on religion which was pursued during the Cultural Revolution. Even during the Cultural Revolution, the extreme leftist policy of stamping out religion did not really have any effect. In Queshan County, Panlong township, an elderly Christian said that he continued to pray during the Cultural Revolution and met secretly for religious activities with a few friends. In political life, people often commit one type of political error in order to avoid another one. There are local cadres who feel that since the state permits religious freedom, and since Christianity has a certain positive impact, then it should be allowed to develop. In other cases, some cadres feel that they do not understand policy on religion and that it would be easy to commit mistakes in enforcing it, so they consign the entire affair to United Front organs or to religious regulatory organs. With this type of one-sided understanding of policy on religion, they either turn a blind eye to Christian activities or dare not exercise regulation, choosing instead to pass the buck to other agencies. This study has revealed that township party committees and village party branches busy themselves every year with the accomplishment of 10 major tasks, including agricultural production, maintenance and improvement of agricultural fields, purchasing of agricultural products, reforestation, birth control, etc. Although they are busy from spring to winter, there is not a single item in their agenda calling for the use of public address systems, village meetings, or blackboard editorials to propagandize atheism and materialism among the masses. Furthermore, many party organizations operate in a very unsound manner. They hold very few activities, and some individuals have resigned from the party because they believe in religion.

As for prospects for further development of Christianity in the local countryside, it is expected to maintain its current level of development for the near future, but it may not develop any more, and its impact upon society will not expand. Although there is historical precedent for the presence of Christianity in this area, atheism is still the prevailing ideology among the masses. It is understood that the vast majority of the masses in Suiping County, Chaxiashan township, Tushan village keep a respectful distance from Christianity activities. They neither interfere nor participate. Neither adults nor children go as spectators to observe activities on Sundays or Christmas. People in the village have one of three attitudes regarding Christianity. Young people say they cannot accept the Christian faith and doubt the positive impact of it. Middle-aged people feel that it is not important whether one believes in Christianity or not. A greater percentage of older people tend to feel that belief in Christianity is beneficial, but very few of them actually do believe in it. This spontaneous atheistic tendency among the masses in this locality is closely related to historical tradition in China, where no religion has ever achieved a position of predominance. The masses are

deeply influenced by popular Confucian philosophy, and believe that "if you believe in spirits, they exist; if you do not believe, then they do not exist." These people will not easily take up any deep faith in religion.

In addition, a large number of local cadres have been able to carry out the policy on religion, and there has been no lack of grassroots party organizations willing to faithfully carry out ideological and political work. For example, the party branch in Suiping County, Chaxiashan township, Tushan village frequently has party members and cadres study current events and political theory, and they have insisted on running regularly scheduled activities. Under the leadership of party branch, the activities of the village Committee, the Women's Federation, the Communist Youth League, and the militia have been carried out in a fairly regular and systematic manner. The village party branch has asked its party members to act as role models, thereby making relations between party organizations and villagers closer. At the same time, the party committee has made use of the public address system to carry out ideological education of the masses. The situation in Tushan village is special because there is a high concentration of Christians, and they have set up a church activity site there, so the village party branch attaches special importance to implementing the policy on religion. Village cadres do not interfere in normal religious activities. They treat believers and non-believers in the same manner, and assign work as it ought to be assigned. They neither discriminate against nor give special consideration to anyone. In order to strengthen government regulation, the village committee has assigned specific cadres to keep abreast of church activities and to report promptly when necessary to cadres in the township government responsible for religious affairs. Because the policy on religion has been carried out relatively well, the church activity site in Tushan village has actively cooperated with the leadership of the party branch and the village committee. Whenever an important activity is going on, leaders of the church affairs team always get in contact with village cadres. The Tushan village party branch also places great importance upon educating party members about policy on religion. The former attitude toward religion was one of rejection and rejection, but party members have now made an improvement, and they respect the right of believers to choose their faith. However, none of the 67 party members in the village believes in religion or participates in religious activities, nor do any of their family members. There are both spontaneous and conscious factors in the atheistic tendency of the masses in Tushan village. There is a close connection between this conscious atheistic tendency and the role model played by party members.

Commentator on Media Policies, Reporters' Ethics

91CM0473A Beijing XINWEN ZHANXIAN [NEWS FRONT] in Chinese No 5, May 91 pp 4-6

[Article by special commentator: "The Basic Principles of Journalism and the Improvement of Work Ethics"]

[Text] The First Plenum of the Fourth Board Meeting of the Chinese National Association of Journalists adopted the Code of Work Ethics for Chinese Journalists. This is of great significance to improving the ethics of the journalist contingent. As far as Chinese journalists are concerned, they now have a unified standard for work ethics.

At present, strengthening press ethics is an urgent need to improve the quality of journalist contingent and fulfill the important historical mission entrusted to the press circle. It is also an important guarantee for implementing the basic principle that journalism serves socialism and the people. In November 1989 Comrade Jiang Zemin pointed out in an important speech, entitled "Several Issues Concerning the Party Press": "Like the undertakings of socialist literature, arts, and publications, the undertaking of socialist journalism has its own characteristics and specific law of development. However, as a component of the ideological sphere, they all need to serve socialism and the people. Although the concrete form, content, and method of service may vary, they all must follow this basic principle." Implementing the basic principle of journalism requires that journalists have not only a firm and correct political direction, extensive and profound knowledge and accomplishment, but also noble work ethics and style. Only by so doing can they unswervingly serve socialism and wholeheartedly serve the people.

Chinese journalists have a fine tradition of work ethics. During the prolonged period of revolutionary wars, both revolutionary journalists of older generations and progressive journalists were devoted to the journalist undertaking of the people under extremely difficult conditions. They considered national liberation and the people's well-being as their duties and went deep into the realities of life to conduct investigation and research. They shared joys and sorrows and loved and hated together with workers, peasants, and soldiers. They made great contributions to the revolutionary undertaking of the people. After the founding of the PRC, journalists carried on the fine tradition of revolutionary-war period and made outstanding contributions to socialist revolution and construction. Since the Third Plenary Session of the 11th CPC Central Committee, under the new historical conditions, the overwhelming majority of journalists have still maintained the past fine tradition, strictly observed press ethics, and become a strong force of public opinion for safeguarding stability and unity and for promoting reform and opening up.

However, we must also point out that along with the development of reform and opening up and the gradual development of the commodity economy in China, the undertaking of journalism has formed a closer link to the economic life of society, and journalists have encountered many new situations and problems in professional activities. Since the undertaking of journalism develops rapidly and the journalist contingent expands continuously, some people cannot withstand the test of the commodity economy and have engaged in conduct that

violates press ethics and encroaches upon the people's interests. For instance, some newspapers and publications ignore social returns to seek economic returns; some use news to make deals and get involved in various forms of paid news reports; and some editors and reporters engage directly in advertisement and business activities to make a profit. These phenomena have occurred only among a small number of people, but their influence has damaged not only journalists' own image but also the reputation of journalist undertaking which serves as the ears, eyes, and mouthpiece of the party and the people. It has also hindered the undertaking of journalism from effectively carrying out its noble social duties. Because of this, we must understand the important significance of enhancing press ethics from the plane of implementing the basic principle of journalism and providing better service for socialism and the people.

The Code of Ethics for Chinese Journalists went through a fairly long period of preparation and deliberation and has gathered the collective wisdom of the press circle. The characteristic of this criterion is that it serves as a standardized principle and requirement for the improvement of work ethics of Chinese journalists, not an administrative rule for award and punishment. With a clear standard, various news units can use it to formulate more concrete requirements for enforcement.

The criterion for the work ethics of journalism covers extensive subjects and include standardized requirements in eight fields. They are all very important and need to be implemented in an all-round way. To better understand and implement this criterion, we must clarify several important concepts:

1. Clarify the fundamental purpose of socialist journalism.

The very first article of the Code points out: Wholeheartedly serving the people is the fundamental purpose of journalism in China. This is the fundamental political and ethical principle of journalism in China.

China is a socialist country practicing mainly the public ownership of the means of production. The undertaking of journalism is also owned jointly by the people of the nation. All people enjoy the freedoms of speech and publication provided for by the Constitution. Mandated by the people, journalists specialize in the undertaking of journalism. So they should naturally follow the wishes of the people and wholeheartedly do a good job in the undertaking of journalism. On behalf of the people they should serve as the master of the country, carry out the duties of the master, and take part in political, economic, cultural, and other social life to provide necessary services. As workers entrusted by the people to engage in journalism, if journalists fail to be loyal to their master and to wholeheartedly serve the people and if instead they turn around to violate the wishes of the people or even encroach upon the interests of the people, they would of course violate the fundamental ethical requirements of journalism.

In China, the people's democracy is unified with the party's leadership. The undertaking of journalism is the ears, eyes, and mouthpiece of the party and the people. To meet the fundamental demand of wholeheartedly serving the people, journalists should always take the stand of the party and the people, handle well the relation between publicizing the party's policies and stands and reflecting the desires of the broad masses of the people, and insist that being responsible to the party is consistent with being responsible to the people. The principle of party spirit in journalism includes the rich content of wholeheartedly serving the people. The argument that regards "people spirit" as opposed to party spirit, that separates the two, and that sets one against the other by interpreting party spirit as to be responsible to the party and "people spirit" as to be responsible to the people is not only erroneous theoretically and harmful politically but also against the principle of socialist press ethics.

To wholeheartedly serve the people, it is necessary to handle well the relation between social and economic returns by placing social returns in the first place. Journalists must have a great sense of social responsibility and hold themselves responsible to society and the people. The second article of the Code points out that news, speeches, pictures, music, and videos must adhere to the principle of regarding positive advertisement as the basis and "be conducive to the development of the productive forces of society, to upholding the four basic principles and opposing bourgeois liberalization, safeguarding social stability, and to improving the ideological, moral, scientific, and cultural quality of Chinese nation as a whole." This should be the criterion for judging whether journalism has placed social returns in the first place. Some time ago some newspapers, magazines, music and video publications were vulgar. Some even advertised pornography, violence, and superstition. They ignored social returns in order to make money. Such practices are not tolerated by press ethics.

2. Voluntarily abiding by the Constitution, law, and discipline for advertisement

Abiding by law and discipline is the social ethic of Chinese citizens. Journalists ought to be the first to set an example. Journalists should demand not only that they do not violate law and disciplines in personal conduct but also that they voluntarily abide by the Constitution, law, and disciplines for advertisement in their journalist activities. This is a demand of the nature and duty of socialist journalism as well as a necessary guarantee for fulfilling the tasks of journalism and publicity.

Our Constitution stipulates that citizens have the right to the freedoms of speech and publication, and that the freedom of socialist journalism is a manifestation of citizens' freedoms of speech and publication in the area of journalist activities. However like any other rights of freedom, freedom of the press is concrete and relative, not abstract and absolute. Entrusted by the people,

journalists engage in the undertaking of journalism, satisfy through the media the needs of the people, reflect the demands of the people, and supervise public opinions on behalf of the people. Needed by work, the party and the government have created for them necessary working conditions and give them fairly extensive freedom of movement. Because of this they must also be subjected to the restrictions of law and discipline. This is to make sure that they do not abuse the freedom of the press to encroach upon the interest of the people.

Here we need to clarify that journalists need not only to abide by law, which is easily understood by the public, but also to observe the disciplines of the party and government for propaganda. It was the second point that had been confused sometime ago. There was a view that held that it was okay as long as news reports did not violate the law and that the principle of party spirit and the guidance of party committee for the principle of propaganda may all be ignored. Such public opinion was stirred up for the purpose of publicizing abstract freedom of the press. In our socialist country, journalist management should of course be gradually put on the track of legal system, but at the same time the party's guidance for the principle and policy of propaganda and necessary party disciplines for propaganda are also indispensable. If we do not uphold the party's leadership over journalism, we would fail to guarantee the correct direction of public opinion and the implementation of the party's major policies and principles. For instance, journalist publicity should voluntarily keep in line with the CPC Central Committee politically, which is an important political discipline. If journalists do not observe this propaganda discipline and use the mass media in their control to advertise voices that are inconsistent with that of the CPC Central Committee or even those that are against the decisions of the CPC Central Committee, they would fail to guarantee the same altitude for the party's ideological and political accomplishment and open up a gate to the so-called view that "places the people spirit before the party spirit" and "the diversification of public opinions." During the 1989 political disturbance, some journalist units committed serious mistakes in guiding public opinions, which is exactly a result of the influence of such an erroneous trend of thought.

3. Uphold the principle of truthfulness, objectivity, and fairness.

Socialist journalists should strictly abide by the principles of "truthfulness, objectivity, and fairness." The view that thinks that "objectivity and fairness" are the concepts of bourgeois journalism is wrong. The problem is that different classes have different interpretations on what is objective and what is fair. The bourgeoisie thinks that safeguarding private capital ownership is right and proper, and fair. But when we talk about objectivity and fairness, we should proceed from safeguarding the fundamental interest of the people. Only by upholding the basic views of dialectical and historical materialism can we recognize the objective law of the development of

things, reflect things in their true appearance, and really live up to being objective and fair. In his speech on the work of Xinhua News Agency on 28 May 1956, Comrade Liu Shaoqi said: "Our news reports must not transcend classes or contain objectivism. They must have a firm stand of the people and class and contain the concepts and methods of Marxist and Leninism. News reports should be objective, truthful, and fair. At the same time, they should also consider gains and losses and see if they benefit the people and the cause of the proletariat." He also said: "To become a worldwide news agency, Xinhua Agency's news must be objective, truthful, fair, and comprehensive. It must have a stand." (*Selections From Marxist Journalism*, published by the People's Publishing House, 1990 Edition, page 243). This is a comprehensive exposition of the principle of "truthfulness, objectivity, and fairness."

The truthfulness of news is the basic requirement of news reports. There are many reasons for news distortion. Most of them are due to incomprehensive interviews, hearsay, subjective assumptions. These are mainly problems of thinking methods and ideological style, which should be overcome and corrected. But deliberate exaggeration, inflammatory additions to a story, and even deception, distortion, and fabrication are against the requirement for the truthfulness of news. These belong to the problems of moral character and must be stopped.

The objectivity and fairness of news demand that journalists adhere to truth, be clear about what to love and what to hate, and tell right from wrong. They are not allowed to bring family or social relations and personal likes and dislikes into news reports or issue news reports to satisfy a personal relation or as a personal favor. They are not allowed to use the mass media in their control to give vent to personal spite or make unfair reports. If they turn the mass media in their control into a means for serving individuals and small groups, they would violate the journalist ethics as well as the nature and basic principles of socialist journalism.

4. Oppose the erroneous tendency of news commercialization.

Currently the unhealthy tendency of the press is manifested prominently in two areas: One is that some people regard news itself as a commodity, engage in multifarious paid news reports, advertising-style news, and make money by reporting on certain units and enterprises. Even worse, some editors and reporters who engage in interviewing activities take part in business activities, solicit advertisement and support, and make personal profits by deducting a percentage of earnings from such activities. Although such unhealthy tendency has occurred only among a few people, its influence is extensive. It has corroded the journalist rank, affected the reputation of journalism, and therefore must be stopped.

This is an ideological issue that must be clarified. News publications such as newspapers, news releases, telegraphic dispatches, recordings, and video products may be sold on the market, so they have certain properties of commodity. But this does not mean that news itself is a commodity and that whoever pays can be in the news or whoever is in the news must pay for it. Using news reports to make deals would cost news truthfulness, objectivity, and fairness. It would also run counter to the responsibility of journalism which is serving as the mouthpiece of the party and the people.

Developing the planned commodity economy and combining the planned economy with market regulation is a demand of the structural reform of the socialist economy. It is an important measure for enlivening the economy, which must be unswervingly implemented. However at the same time we must prevent bringing the principle of commodity exchange into the superstructure and the ideological sphere. As a special form of ideology,

journalism must not tolerate the infiltration by the principle of commodity exchange. News must not be used to make deals. Socialist journalists should accelerate through their own journalist activities the development of socialist planned commodity economy. At the same time they should also scrupulously abide by the moral standard of being honest and upright, develop the traditional virtue of "having a healthy atmosphere and two clean hands," and oppose the corrupt tendency of seeking fame and money and trading news releases for personal gains.

We believe that the Code of Ethics for Chinese Journalists adopted at the First Plenum of the Fourth Board Meeting of the Chinese Journalist Association will definitely serve a positive and progressive role in improving the journalist contingent, enhancing the work ethics of journalists, better implementing the basic principle of journalism, and serving socialism and the people.

**Report Details Security Violations, Leaked
Military Secrets**

91P30190A Beijing JIEFANGJUN BAO in Chinese
30 Jun 91 p 3

[Article: "Be Vigilant! Military Secrets Being Leaked Unwittingly"]

[Text] In the first half of this year, we received hundreds of letters from readers which reflected upon the shallow understanding of secrecy protection concepts by some comrades. These comrades have leaked military secrets unconsciously and unwittingly; this leaves us shocked and worried.

Leaking Secrets in Garbage and Refuse. A letter from comrade Jing Feng [2529 1496] of the Jinan Military Region says that one day in the early part of June he came upon a middle-aged woman who was picking up odds and ends from refuse heaps; she had more than 10 military maps and eight documents marked "Secret" in her hand. He asked her where she got these things. She answered that she had picked up these documents from a refuse heap, and that the maps had been thrown away by a soldier, after which she picked them up. Comrade Yang Kangzhong [2799 1660 1813] of the 35106 budui wrote to us, saying that on 5 April in the afternoon, comrade Yin Huaizhong [1438 2037 1813] of the Political Department picked up a mimeograph military map on his way back to the battalion (headquarters) from a basic unit. At the same time, he saw a woman carrying two baskets of papers and books. He went over to take a look and found out that not only were there newspapers and books, there were also classified documents, military teaching materials, combat manuals, and other papers and maps totalling 83 pieces. There were also two notebooks of military training and analysis.

Leaking Secrets by Chitchat: Comrade Jia Quanlin [6328 0356 2651] of 39458 budui wrote us saying that on 23 March he was returning to Lanzhou on an express train when he saw an Army Captain and an Air Force Lieutenant and two plainclothed soldiers engaged in conversation in car no. 6. One officer was talking about how many warplanes they had in their unit, the weapons and equipment on these planes, how many pilots they had, the features of these weapons, and so on. The other officers were all ears. A letter from Comrade Shang Xueqiang [0794 1331 1730] of 37251 budui said that in a guesthouse of a certain unit, a major was talking irresponsibly with three local high officials. He mentioned an inside story that involved many military secrets.

Leaking Secrets by Taking Pictures: A letter from comrades Ji Xu [4764 2485] and Zhou Piao [0719 1753] of

81127 budui said that while looking over some soldiers' photo albums, they found that some photos had been taken with their munition depot in the background, some were taken under the banners and medal awards in the honor room, and others were taken with some internal equipment in the background. According to their understanding, soldiers' friends and relatives who come to visit often take pictures using the above as background. A soldier from 84863 budui wrote to us to say that a dependent of a cadre who runs a photo shop on the base takes pictures everywhere; he even takes pictures of new weapons.

Leaking Secrets Through Correspondence: Military cadre Ren Ke [0088 0668], a native of Mingtan Xian, Guizhou Province, sent us a letter. He said that on a recent trip to the countryside, he met with parents of 12 new soldiers who joined the PLA just this year. In their conversation, 10 of the 12 sets of parents could tell the leaders their sons' troops and designations, among other things. Zhou Jintao [0719 6855 3447] of 83367 budui said in a letter that some individuals and some local government units often write to troops using place names and designation numbers rather than the code numbers.

Leaking Secrets in Connection With Local Personnel: Comrade Xiao Dong [1420 2639] of Nanjing Political Institute said in a letter that recently, students from Nanjing middle and elementary schools visited military bases for their studies, which is good for their education as well as a means of building good relations between civilians and the PLA. But comrades often forget the rules and regulations of secrecy protection. Not only do they freely tell the the students their designations and duties, they also disclose their units' weaponry and equipment and other special features and data. Comrade Qi Xuejun [7871 1331 6511] of 51028 budui wrote to us and said that many businessmen who come to military bases on business possess "code books" which contain records of budui locations and designations and how to get there. In just the few days from 14 to 18 April, our troops confiscated 12 copies of this kind of book. One of them contained the records of 32 buduis including locations, designations, and routes.

Leaking Secrets by Duplicating Copies Through Mail: Yu Qihua [0151 1142 5478] of a certain unit stationed in western Yunnan sent us a letter. He said that not too long ago he visited a household business providing duplicating and typing services, where he noticed that some budui had sent their classified material for copying and duplication. Comrade Fan Chuankui [5400 0278 1145] of 54633 budui wrote to us saying that some units, in order to save time and red tape, send internal and very sensitive documents by mail to their operational units; these are referred to as unregistered "black documents."

EAST REGION

Economics, Ideological Problems Seen Interrelated

91CM0501A Nanjing QUNZHONG [THE MASSES]
in Chinese No 5, 5 May 91 pp 29-30

[Article by Huang Shuxian (7806 2885 6343): "Treat the Two Deeply Embedded Problems Dialectically"]

[Text] At present, China's political and economic situation is more and more developing toward stability and soundness. However, at the same time, we are facing two deeply embedded problems: first, the contradictions and problems of economic life and, second, problems in the ideological realm. How we are to correctly understand and resolve these two deeply embedded problems constitutes an important task in studying and implementing the spirit of the Seventh Plenary Session of the CPC Central Committee on promoting construction and reform.

The improvement and rectification of the economy that has been going on for more than two years now has achieved obvious success. Overall supply and demand is tending toward a balance, inflation has been controlled, agriculture has had bumper harvests two years in succession, industrial production is progressively on the upswing, and there has been an initial rectification of economic order. However, contradictions and problems which have accumulated over many years, such as irrational economic structure, poor economic efficiency, enterprises lacking in vitality, and unsuitable structural relationships, still are not basically resolved. In the realm of ideology, there has occurred a new turn for the better over the entire ideological and political front as a result of a series of effective measures adopted by the CPC Central Committee with Comrade Jiang Zemin at its core. The state of people's ideology has undergone an important change, and the major questions of right and wrong in ideological theory have been basically clarified. However, some of the masses, especially young people, deep down inside, still have not completely resolved questions of understanding, such as their trust in communism, their trust in building socialism with Chinese characteristics, and their trust in communist leadership.

The above two deeply embedded questions belong to two different categories which are mutually related, mutually dependent, mutually restricting, and mutually influencing, thus forming a mutually contradictory entity. The deeply embedded questions of economic life constitute one of the chief reasons for deeply embedded questions in the ideological sphere. Resolving the deeply embedded problems of economic life is decisive to resolving the deeply embedded problems of understanding in the ideological realm. By stepping up the pace of reform, expanding its scope, readjusting industrial structure, invigorating large- and medium-sized enterprises, improving economic efficiency, setting up the operational mechanisms for a commodity economy in a planned manner, vigorously developing productive

forces, and giving full expression to the superiority of socialism, people will be imbued with trust for socialism. Thereby the deeply embedded problems of understanding in the realm of ideology will be effectively resolved. For the past several years, Xinyang Farm in our system adhered to contract management, strengthened its internal management of enterprises, readjusted product mix in conformity with market changes, and on the basis of developing production, increased contributions to the state, increased its collective accumulation, and raised the income of workers and staff personnel. In 1990, it was hit by a force-15 typhoon and affected by a market slump. Direct economic losses to agriculture came to approximately 13 million yuan. However, because the farm was relatively strong economically and capable of meeting emergencies, it still completed the targets handed down by the head office, and its distribution to workers and staff personnel was maintained at more than 2,100 yuan. The ideology of the entire body of farm employees has been stabilized and their enthusiasm aroused. They resolutely adhere to a socialist management orientation and are vigorously developing the farm's state-owned economy.

Deeply embedded problems of understanding in the ideological realm are a reflection of deeply embedded problems in economic life. However, these problems in economic life also have a certain counteraction. If deeply embedded problems in the ideological realm are properly resolved, it enables people firmly to believe in the correct leadership of the party Central Committee, to strengthen their trust in socialism, to glow with the enthusiasm of socialist labor, to arouse their revolutionary enthusiasm for overcoming difficulties and arduous struggle, and vigorously to promote economic construction and reform and opening up to the outside world, thereby gradually resolving the deeply embedded problems of economic life. In 1990, the Dongxin Farm in our system suffered the dual difficulties of a market slump and a natural disaster. It organized extensive training in cherishing the party, the country, and socialism. It held large-scale discussions on "If the enterprises have difficulties, what are we to do?" and guided workers and staff personnel in facing up to the current temporary difficulties. This created the lively prospect of cadres, workers, and staff personnel closing ranks in their struggle, thereby setting new records in agricultural production. Total grain output for the entire year increased 8.9 percent compared with 1989, the highest year on record; income from industrial sales and profits increased 10.2 percent and 14.49 percent, respectively; and total profits for the entire farm increased 6.6 percent, with worker and staff personnel income reaching 2,145 yuan, an increase of 10.6 percent. The present strength of the farm has increased, it has a rational structure, its economic health is quite adequate, and it is moving on a course of favorable cycles.

There are, at present, two diametrically opposed views on how to deal with the deeply embedded problems. One holds that deeply embedded problems in the ideological

realm can only be resolved after the deeply embedded problems in economic life have been resolved. The other holds that the deeply embedded problems in economic life can only be resolved after the deeply embedded problems in the ideological realm have basically been solved. The two views are actually taking one-sided and isolated approaches. In dealing with the two deeply embedded problems, we should integrate our understanding and resolve them simultaneously. In recent years, the cotton knitwear mills in our province have upheld the two civilizations. On the one hand, they stressed deepening reform, completing contracts, making technical renovations, strengthening internal management, promoting the escalation of enterprises, increasing vitality, and increasing reserve strength; on the other, they stressed building a spiritual civilization, adhering to training workers and staff personnel in political schools, and enhancing their political level. As a result, in 1990 when raw cotton was in short supply, when there was a slump in the domestic market, and when foreign sales were under severe sanctions, their economic efficiency and principle production indicators ranked first for their industry nationwide. When the ideology of all the employees in a factory is unified, when their morale is high, and when their minds are at rest, production grows.

We know from experience that leaders at all levels must vigorously implement the important task of resolving the two deeply embedded problems by building the two civilizations. With the close coordination of party and government leaders, it can be jointly managed. When

administrative leaders study how to resolve the deeply embedded problems of economic life, they must at the same time study how to resolve those in the ideological realm; when party committee leaders study how to resolve deeply embedded problems in the ideological realm, they must at the same time study how to resolve those of economic life. Resolving deeply embedded problems in economic life provides a material base and argument for resolving deeply embedded problems in the ideological realm; resolving deeply embedded problems in the ideological realm provides ideological guarantees and spiritual motivation for resolving deeply embedded problems in economic life. In the process of resolving these problems, we must guide the broad masses of cadres and workers and staff personnel in the conscientious study of Marxism-Leninism and Mao Zedong Thought in order that they devote themselves to reform and opening to the outside world and to economic construction. Having them realize during this great experience the inevitability and magnitude of building socialism with Chinese characteristics, having them feel the superiority and life force of the socialist system, and having them clearly understand the correctness of the line and policies of the party Central Committee will enable them to transform their objective world at the same time they are constantly transforming their own spiritual world. As long as we uphold the ideological line of dialectical materialism, we will be able to effectively resolve the two deeply embedded problems that we currently face, attain new successes in building the two civilizations, and smoothly implement the magnificent second-step goals of the nineties.

Issue of Independence Examined

91CM0537A Taipei TZULI WANPAO in Chinese
23-25 Jul 91

[Article by Chen Lung-chih (7115 7127 1807): "Progress and Regression of Island Nation Taiwan's Status—40 Years After the San Francisco Peace Treaty"]

[23 Jul 91 p 19]

[Excerpts] There are different views of Taiwan's status. A great many people believe that Taiwan's status was uncertain in the past and remains uncertain. Past uncertainty was our view 20 years ago. But now, after 20 years, with further investigation of its essential meaning, Taiwan's status has been ascertained. With 40 to 50 years of all-out effort by Taiwan's people on and off the island, Taiwan has essentially evolved into a sovereign nation—a prosperous developed island nation. This is the progress and regression of the status of island nation Taiwan that I am talking about. I specifically stress that Taiwan is an island nation.

In speaking of Taiwan's legal status, it brings to mind the San Francisco Peace Treaty with Japan. The San Francisco Peace Treaty with Japan was signed 8 September 1951, 40 years ago this year. History continues to evolve. World War II is over and the issues that are not completely resolved still must be resolved. [passage omitted] Is Taiwan's status certain or uncertain? To whom does Taiwan belong? To what country does it belong?

Why is the San Francisco Peace Treaty given special attention and importance today on and off the island? What is its significance for the status of Taiwan?

To answer these questions we must give a quick overview of Taiwan history. [passage omitted] Recall that our ancestors, to escape the chaotic wars of the mainland, sought their own homeland, a paradise for their children and grandchildren. They disregarded danger and hardship, violated the prohibitions of mainland rulers, resolutely left their homeland, crossed the dangerous dark channel, and arrived in Taiwan, never to return. In our ancestors' minds Taiwan was Shangri-La.

When they arrived in Taiwan, they fought over territory with the original inhabitants at that time, and after a considerable period of adjustment, our ancestors peacefully coexisted with the original inhabitants, living together on this island. So, the 400-year history of the Taiwan people unfolded, fighting one after another with sea powers from the West and the East for control and domination of this verdant island.

The Portuguese were the first Westerners to discover Taiwan. They called Taiwan "Formosa," meaning beautiful island. So, Taiwan became internationally famous as Formosa, occupying a prominent place on world maps. Formosa definitely was not Chinese territory.

After the Portuguese, the Netherlands and Spain came to Taiwan's southern and northern parts, respectively. As a

result of the rivalry of these two, Spain was forced to leave and Taiwan became a Dutch colony. They established a fort in southern Taiwan and sent officials to govern.

Following the change of dynasties in China, Koxinga, who could not accept the rule of the Ching emperor, sought refuge in Taiwan for the "anti-Ching Ming restoration" and replaced the Dutch as ruler of Taiwan. Koxinga's descendants, partially as a sale and partially as a gift, sold Taiwan to the Ching empire. The Ching empire looked upon Taiwan as a barbaric foreign land and essentially did not make Taiwan their territory. At that time on Taiwan "there was a minor rebellion every five years and a major rebellion every seven years," in opposition to the nominal external rule of the Ching. So, after their defeat in the Sino-Japanese War, the Ching gave Taiwan to Japan as a condition for Japanese exchange. Taiwan continued to be an "international orphan," transferred from one colonial power to another colonial empire. At that time gentry, military officers, and common people opposed to Japanese occupation of Taiwan established the first democratic republic in Asia. Although Taiwan's democratic republic quickly disappeared and did not play a very important role, it is a very important page in Taiwan history.

In 1895 Japan began 50 years of colonial rule on Taiwan. During this period, when the international political atmosphere was permeated with colonial power politics, Taiwan never ceased to oppose the oppressive colonial rule brought in by the Japanese.

At the end of World War II, Taiwan's future was an important topic at the Allies' Cairo and Potsdam conferences. After Japan unconditionally surrendered, by order of the Allied commander of the Pacific region, the Taiwan region was represented by the Chinese Government when the United States, China, Britain, the Soviet Union, and other allies received the Japanese surrender.

Under the plundering and oppression of the neocolonialist rule of the Chinese military occupation authorities, the indignation of the Taiwan people could not be contained and evolved into the islandwide February 28th Uprising [1947]. Unfortunately, 20,000 of Taiwan's distinguished leaders were massacred in the cruel violence of the Kuomintang occupation force, the streets and lanes were strewn with bodies. The Taiwan people suddenly awakened. The Taiwan people certainly could only survive and develop and enjoy liberty if they had their own country and government. So, the lucky surviving patriots hid out on the island or spread overseas to conduct a movement to establish an independent Taiwan.

Before long, in October 1949, the People's Republic of China was established. Chiang Kai-shek was kicked out of the Chinese mainland by the Chinese people. The ruling clique centered around Chiang Kai-shek fled to Taiwan and imposed on the Taiwan people a government fabricated to rule the Chinese mainland, causing

Taiwan to fall into a long period of obscure, chaotic rule by exiles coming from the outside, mythical rule, deceptive rule, divisive rule, secretive rule, and exploitive rule. As far as international law was concerned, Taiwan at that time still was Japanese territory.

At that time the Chiang clique that had fled to Taiwan counted on Japan for their political survival. The United States had issued a white paper on China and waited for the announcement of the demise of Chiang's political power. But Chiang Kai-shek had a truly long life. In June 1950 a major unexpected event occurred—the Korean war broke out and the Chinese Communists entered the Korean war and engaged in a major war in Korea against the UN forces led by the United States. So the United States was forced to reassess its policy toward the Far East and its policy toward China. The United States adopted containment as its foreign policy to resist Chinese Communist extension of Soviet power, completely surrounding from the Bering Strait in the Far East to the Baltic Sea in northern Europe. Taiwan became a link in the U.S. containment policy and the Chiang clique became a branch force in U.S. opposition and resistance to the Chinese Communists. U.S. President Truman announced that the Taiwan Strait was neutral territory and that he would not allow Chinese Communist military forces to spread and invade Taiwan. At the same time, he gave Chiang's exile clique the opportunity to catch their breath. Unexpectedly this breath lasted 40 years.

Because the Korean war broke out and the cold war and the hot war were going on simultaneously and tensions were worsening in the Far East, the United States and its allies believed that it was necessary to immediately end the state of war that existed with Japan in international law. So, in the summer and fall of 1951 they held a peace conference with Japan in San Francisco. Neither the Chinese Communists nor the Kuomintang authorities were invited to participate, because although the Chiang authorities did not have the credentials to properly represent China in the United Nations, international forces led by the United States refused to recognize the Chinese Communists as the legitimate government of China.

At the 8 September signing of the San Francisco Treaty, Japan formally renounced all rights and territorial demands to Taiwan and the Peng-hu archipelago [Pescadores]. Taiwan was separated from Japan, but certainly was not incorporated into China or any other country. Because Japan's renunciation did not mention a beneficiary country, Taiwan's true ownership remained unsettled. This is the origin of the theory of the uncertainty of Taiwan's status. (The next year, 1952, when the Chiang authorities signed the "Sino-Japanese Peace Treaty" with Japan, both sides reaffirmed Japan's renunciation of rights and territorial demands to Taiwan and Peng-hu in Article 2 of the San Francisco Peace Treaty, but did not clearly settle the issue of Taiwan's ownership.)

The delegates who participated in the San Francisco peace conference held considerable discussion of Taiwan's ownership. They were in general agreement that although Taiwan's status was temporarily unsettled, its status should be determined at a suitable time in the future in accordance with the general principles of the UN Charter on "popular self-determination" and "no use of force."

It is clear that Taiwan's status was uncertain at that time. But, from the early 1950's, Taiwan's status was tied in many ways to China's representation at the United Nations. Year after year, Albania, led by the Soviet Union, made the resolution that the Chinese Communists take the seat of the Kuomintang authorities in the United Nations, and every year it was defeated by the absolute majority of the group headed by the United States. The Chinese Communists struggled for more than 20 years to enter the United Nations, employing a great deal of personal and material resources, as well as intelligence and skill. At the same time, the United States and the Chiang authorities also employed a great deal of personal and material resources, and intelligence and skill to block the Chinese Communist entrance into the United Nations.

Taiwan, of course, should have been a member of the United Nations early on, but Chiang relied on United States support to consider himself China's representative and, with equivocal international support, to occupy China's seat. So, they used a myth to maintain their political power and strictly enforce their high-handed external rule over Taiwan. The Chiang authorities depended on Taiwan in Taiwan, but they did not want to represent Taiwan. They ruled the Taiwan people, but they used the "Chinese" legal system to permanently nurture national delegates as members of the Legislative Yuan and the Control Yuan, going several decades without an election. Because the Chiang authorities were not internationally representative, they did not represent either Taiwan or China, but only blocked the excellent future of Taiwan for a number of years.

The 1960's was a period when rising new anticolonial countries sprang up one after the other. If the Chiang authorities at that time had thought of the true well-being of the Taiwan people and not the benefit of a small ruling clique, and had joined the United Nations in Taiwan's name, Taiwan would not have fallen into today's international isolation, everywhere rebuffed. As with the tide of large and small newly independent countries entering the United Nations, it would not have been necessary to have any violent revolution and they would not have encountered the strong opposition of the Chinese Communists, because at that time the Chinese Communists were busy with their own affairs and would have been overjoyed at being able to enter the United Nations. A great many issues that everyone is concerned about today should not have become issues. But the Chiang authorities stubbornly stuck to "not coexisting with the Chinese bandits" and sought benefits for a small clique, forfeiting the lifeline of the Taiwan people.

Because of this, before the Chinese Communists entered the United Nations, the Taiwan independence people and overseas Taiwan people with lofty aspirations strove together to separate the ownership of Taiwan from Chinese representation and proposed the "one Taiwan, one China" stand to thoroughly resolve the issue of Chinese representation. Under the "one Taiwan, one China" proposal, Taiwan would become a member nation of the United Nations and China's seat in the United Nations would be represented by the People's Republic of China that ruled the Chinese mainland. Thus, all the difficulties could be resolved. It would be a very peaceful resolution, most ideal for international society, the United Nations, the Chinese people, and the Taiwan people, and most in keeping with the UN Charter.

At that time far-sighted international statesmen who could set aside their own individual selfish interests and biased and narrow national interests, could see clearly that an independent Taiwan was a thorough way to resolve the international problem. This also is why the UN delegate of the Chiang clique's longtime best friend, Saudi Arabia, after he saw the policy that we proposed after detailed research, at a critical moment for Chinese representation, formally proposed "one China, one Taiwan" in the UN General Assembly to enable Taiwan to continue to participate as Taiwan, after the Chinese Communists entered the United Nations. He stressed that Taiwan was a sovereign nation, citing the history of U.S. independence as a precedent for Taiwan's independence, considering the idealistic leaders of the Taiwan independence movement as good as the founders of the United States. He meant that the American founders that the British Empire had denounced then, in the 20th century were heroes to the British people. According to that line of reasoning, today's members of the Taiwan independence movement and tomorrow's founders of a Taiwan nation, one day could become heroes to the Chinese people, because with their farsightedness they had created a beautiful future for Taiwan and, at the same time, established a good neighbor and a mutually assisting brother nation for China.

It is truly a pity that the Chiang clique could not promptly grasp the moment and accept the proposal of their good friend Saudi Arabia before they lost their chance and were kicked out of the United Nations and at the same time forfeited the international diplomatic lifeline of the Taiwan people and endangered Taiwan's status.

[24 Jul 91 p 19]

[Excerpts] **Progress in Taiwan's Status**

When a territory's international legal status is uncertain, the most ideal and clearest way in international law is to use the principle of "popular self-determination": To have a "plebiscite" under impartial international supervision to convey and confirm the people's common choice freely arrived at. Because a change in a territory's

status is not a transfer of real estate, the territory's ownership essentially affects the lives, the liberty, the welfare, and the future of all the residents. It is a pity that because of the constant selfishness and opposition of Taiwan's rulers, this ideal method still has not been implemented. But "heaven never seals off all the exits." If this way is not open, we can seek another. We Taiwan people, in order to grasp our common destiny and open up our common future for ourselves and our children and grandchildren, certainly can pool our wisdom and efforts to find a practical way out, and no one can stand in our way.

Through the common efforts of Taiwan people on and off the island, those on the island and overseas will unite and encourage one another, and little by little build up to a great force for progress in Taiwan's status. In nearly half a century of painful effort it has constantly evolved and slowly transformed itself visibly and invisibly. Taiwan actually has become a sovereign entity and an independent nation. This is the progress in Taiwan's status that I want to emphasize.

In the 20 years since the Chinese Communists entered the United Nations, Taiwan certainly has not ceased to exist. On the contrary, it has continued to survive, prosper, and develop. [passage omitted]

By either traditional international law or contemporary international law, Taiwan actually is a sovereign independent nation. Taiwan has its own territory and 20 million people, and a government governing the territory and the people. Taiwan's sovereignty comes from the people. It is not under the control or the administration of any other nation. Taiwan has the national defense of its own armed forces, its own government, and its own economic, social, and educational systems, and it certainly has its own future. If this is not a country, what does it take to be a country?

The Taiwan people in these few decades, because of universal education, rising intellectual standards, the growing awareness of the people and their demands for democracy, international contacts, commercial exchanges, and rapid economic growth, have caused Taiwan to have one of the world's best foreign exchange bases. The Taiwan people's political demands today are not simply for food and clothing as in the past. The Taiwan people demand to be truly blessed with a democratic country. The advancement of the Taiwan people makes island nation Taiwan's independent status more realistic and more durable.

That Taiwan, with its political restraints, could still become an economically strong nation is a miracle of human history. The maturity of Taiwan's economy today should be credited to Taiwan's remarkable and diligent people and the truly "resourceful" business people and entrepreneurs. The more Taiwan's economy develops, the less able the people are to tolerate spurious dictatorial rule. In World War II, Taiwan did not suffer the baptism of the flames of war and the atomic bomb as

Japan did. The Taiwanese are by no means inferior to the Japanese, and in some areas they are better than the Japanese. The intelligent and resourceful Taiwan people cannot help but ask "why," if Taiwan has more abundant natural resources than Japan, Japan's economic development up to now is far ahead of Taiwan's and it is the world's leading economic power. If we thoroughly investigate it and think it through, the most fundamental reason is that the Japanese have their own country and their own government and everything about Taiwan is obscure—The Taiwanese seem to have a country and they seem not to have a country. They seem to have a government and the seem not to have a government. The Taiwan people have discovered the importance of a national government in economic development and international trade. Economic development cannot far surpass political development. A backward government can in no way ensure rapid economic development. A country in name and in fact can balance environmental protection and economic development so that the economy can have long and healthy development and prosperity. The demand that Taiwan should be a true country in name and in fact is common knowledge and gives a big impetus to island nation Taiwan's status. Taiwan not only should be an economic country, it should also be a political country.

In the late 1980's, Taiwan's political history underwent epoch-making development. Martial law and press censorship were rescinded and freedom of expression flourished. The more it was debated, the more it caused the Taiwan people to have a deeper understanding that Taiwan independence is a movement that truly cherishes and preserves Taiwan. Professors and students, with the awareness that individuals can be defeated, but not formations, enthusiastically joined the ranks of democratization.

The founding of the Democratic Progressive Party was especially significant historically and for substantial pluralism. The founding and development of the Democratic Progressive Party were the crystallization of nearly half a century of struggle for Taiwanese political awareness. The survival of the Democratic Progressive Party and the smashing of the Kuomintang's one-party autocratic rule, at the same time, also provided another brand-new choice for Taiwan's political development.

After the Democratic Progressive Party was founded, the political demands and expectations of the entire people's were even higher. All of the past political myths of Kuomintang rule collapsed by themselves. "Legally constituted authority" became an excuse for the petty advantages of permanent representatives, and martial law to suppress the rebellion was even more clearly a method to control the people. The redetermination of the national system, the reestablishment of constitutional government structure, changes in government policy, and the organization and development of popular representation, with the opposition of an opposing party

after the founding of the Democratic Progressive Party, intentionally or not, brought together the demands of the entire people.

In another respect, the Kuomintang also took the nativist road. Taiwanese are gradually acquiring the balance of power in Kuomintang policymaking centers, and policy also is based on Taiwan's actual situation. With changes in the makeup of the Kuomintang, it is easier to face the reality that Taiwan is an independent nation. [passage omitted]

Regression in Taiwan's Status

We are on the road to establishing Taiwan as an independent nation, but we cannot overlook that in the midst of progress there also are contrary forces holding us back.

The American Law Compilers' Association, in one of its publications on U.S. diplomatic law, discussed whether or not Taiwan is a nation. A great many experts on international law believed that Taiwan has all the conditions for nationhood, and certainly is an independent nation. But some experts believed that, because the government that rules Taiwan does not believe that Taiwan is a nation, it has not been finally determined whether Taiwan is a nation or not. This is like a clerk who never thought of becoming the boss, so there is no way for others to make him boss.

The Kuomintang authorities consider themselves the legitimate rulers of China and do not identify with Taiwan; this is a regressive force blocking Taiwan's advance. In the past, Chiang Kai-shek insisted that he "would rather die for justice than live in disgrace" and that he would "not coexist with the Chinese bandits," and refused every good suggestion from his international friends and would not remain in the United Nations in the name of Taiwan, until the Chinese Communists entered the United Nations and Taiwan became an international orphan. The Kuomintang authorities' obscure concepts and policies caused the Kuomintang foreign relations ministry to become a breaking-relations ministry. Taiwan gradually was isolated in international society.

This Kuomintang policy of not wanting to advocate that Taiwan is a country right up until recently not only did not change but, on the contrary, became the root cause of Taiwan's present turbulent political situation and brought Taiwan still another major crisis. Relations with China, that once could simply have been that of good neighbors, have ended up entangled and unclear. Such terms as "one country, two systems," "one country, two governments," "confederation," "federation," "autonomous region," "highly autonomous region," "Hong Kong-Macao model," and "the two Germanys model" become more confused the more they are mentioned, and also drag the Taiwan people down and twist them around. What once was gradually being defined as Taiwan's status as a sovereign independent nation became

the "independent government dispute" or more obscure and dangerous situations than the "independent government dispute."

"The independent government dispute" is from selfish politicians who want to make the Taiwan people a pawn in another destiny. Those politicians who rule Taiwan but do not identify with Taiwan fish in troubled waters for their own benefit and that of their clique. They definitely do not want Taiwan's status to be defined or clarified. Ambiguity in Taiwan's status is more beneficial to their political monopoly that has never been responsible to the Taiwan people. They deliberately manufacture and stress such terminology of colonial rule as "provincial affections" and "divide and rule," to be used by politicians who do not identify with the good of all the people and the future of the Taiwan nation to manage the Taiwan people and block the prospects for Taiwan's status as a nation. Selfish politicians, intentionally or unintentionally, embrace the Chinese Communists to strengthen themselves, to intimidate and suppress the Taiwan people, and even, when the occasion demands, to sell out Taiwan to the Chinese Communists to seek the possibility of wealth and power. This mentality of seeking refuge by selling out has become a force in recent years and is an obstacle and an undercurrent endangering Taiwan's democratization and the founding of an independent Taiwan nation.

The Kuomintang made political objectives and the political system vague and general. To achieve the policy of ruling the people out of ignorance, the Kuomintang more completely controlled radio and television broadcasts that greatly influence everyone, and up until now censored the press. Taiwan society was polluted by the myths and dogmas of Kuomintang rule. The Kuomintang deliberately used them to corrupt people's values, eroding them over 40 years, so that the good traditional virtues of Taiwan society have been destroyed and popular sentiments and popular qualities have been swallowed up by the temporarily visiting culture of the Kuomintang rulers. Taiwan's culture was unable to receive the development and care that it should have. Such a bad cycle also prevented Taiwan's status from being developed and established as it deserved. What should have been a totally vigorous and totally alive national society actually was totally sad, pessimistic, and resigned. Some people believe that Taiwan will inevitably be swallowed up by the Chinese Communists. This totally pessimistic mentality is truly bad for island nation Taiwan.

Taiwan's international status is now approaching a crossroad between further progress or regression. For 40 years Taiwan has undergone a crisis. How at this important juncture do we open a lifeline and grant more space for international activity so that Taiwan can become a nation both in name and in fact? This is a major task that we must all strive for together. There certainly are a great many tasks to be done. But there is one top priority item. This is what has been stressed recently on and off the

island, Taiwan's application to enter the United Nations as Taiwan. This is an important campaign that can and must be done now.

Some might immediately ask, "If Taiwan applies to enter the United Nations, the Chinese Communists who have the veto power in the Security Council certainly will oppose it. If this is the case, what is the use of applying? What is the use of stupidly creating trouble for ourselves? Creating a stumbling block for ourselves? Looking for trouble?"

The simple answer is, "If the Chinese Communists oppose it, let them oppose it, but we should do the best we can and take the initiative."

The struggle to join the United Nations entails stressing to the world's people that island nation Taiwan is already an independent sovereign nation. Taiwan's participation in the United Nations would be good for the United Nations organization and all of international society, it would be good for Taiwan, and it also would be good for the Chinese Communists. After Taiwan enters the United Nations, it could have what it deserves. Because its politics would be clarified and advanced, Taiwan's economy would further progress and the people's lives would be better. The Chinese Communists would be relieved of a political burden. They would not have to stress military armament and could further raise the people's living standards. At the same time, they could avoid taking on the crime and aftereffects of being an imperialist hegemonist who invaded Taiwan. After Taiwan enters the United Nations, it could work with the United Nations economically, using the "Taiwan experience" to come to the aid of other developing countries, and it also could make a considerable contribution to United Nations expenses.

This said, the Chinese Communists certainly could irrationally argue that this is an internal Chinese issue. Is Taiwan's application to enter the United Nations an internal Chinese issue? Certainly not. Any issue of international interest, especially discussion of entrance into an international organization, certainly is an international issue. Moreover, Taiwan's status is an international issue that should have been provided for in the San Francisco Peace Treaty, but was not. Any issue that involves interpretation and application of an international treaty certainly is an international issue. For Taiwan to apply to enter the United Nations on the 40th anniversary of the signing of the San Francisco Peace Treaty would be even more imbued with historical significance.

Another major reason for the Chinese Communists to object is their strong advocacy that "Taiwan historically is China's sacred intrinsic territory." To which historical stage or period an intrinsic territory should be traced is an extremely controversial issue. Is it the Dutch colonial period? The period of Japanese colonial rule of Taiwan? Using the excuse of intrinsic "sacred territory" to annex a country or a people is a fundamental violation of

contemporary international law in no way tolerated by modern international society. Last year's invasion of Kuwait by Iraq's Saddam Hussein is a real lesson.

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[Excerpt] [passage omitted] Taiwan has not always been under Chinese rule and has not always been Chinese domain. Any aggressive action that the Chinese Communists take to deliberately annex Taiwan with the excuse that Taiwan is their inherent sacred territory could bring the Chinese Communists a severe reaction from international society and strong resistance from the Taiwan people. It is very difficult for anyone to predict the price the Chinese Communists would have to pay if they wanted to invade Taiwan. A Chinese Communist leadership responsible to the Chinese people should think this over carefully—think it over carefully and not act, not think it over carefully before they act. Ever since their country was founded, the Chinese Communists have put out to Taiwan the slogan of liberating and uniting, and all along they have adopted a policy of not renouncing an armed attack on Taiwan. In other words, the Chinese Communists all along have overtly and covertly stressed an armed attack on Taiwan. But 40 years have already passed and things are changing among the Chinese Communists (especially since the "June 4th" Tien-an-men incident), things are changing in Taiwan, and international politics also are changing. It is not that the Chinese Communists have not thought of attacking Taiwan, but the Chinese Communists know in their hearts that taking Taiwan by force actually is a

stupid plan. As far as the Chinese Communists are concerned, respect for Taiwan's independent existence is perhaps the best plan.

Moreover, ownership of a territory is not just transfer of a piece of land. The intentions and wishes of the people on the territory are factors that absolutely must be respected and considered. Today, with the emphasis on personal dignity and protection of human rights, any decision that overlooks people's desires simply could not be agreed to. Even if it were achieved by force, the country concerned would have to bear incalculable consequences.

Remember when the Chinese Communists wanted to enter the United Nations and encountered the opposition and rejection of most of the member nations. But the Chinese Communists did not lose heart. They persisted and struggled for more than 20 years, and finally took the seat of the Kuomintang representative in the United Nations. Taiwan's application to enter the United Nations is a difficult exercise, but the Chinese Communists are an excellent example. At that time the influence in the United Nations of the United States, who blocked the Chinese Communists' entrance, was at its apex. But the Chinese Communists still ended up entering the United Nations. Today, Chinese Communist influence in the United Nations is much less than the absolute supremacy of the United States at that time. Especially since the Tien-an-men incident, the Chinese Communists' international prestige has suffered a disastrous decline. We just have to do our best, persevere, and continue to struggle, and try, try again, and, sooner or later, island nation Taiwan is certain to enter the United Nations. [passage omitted]

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